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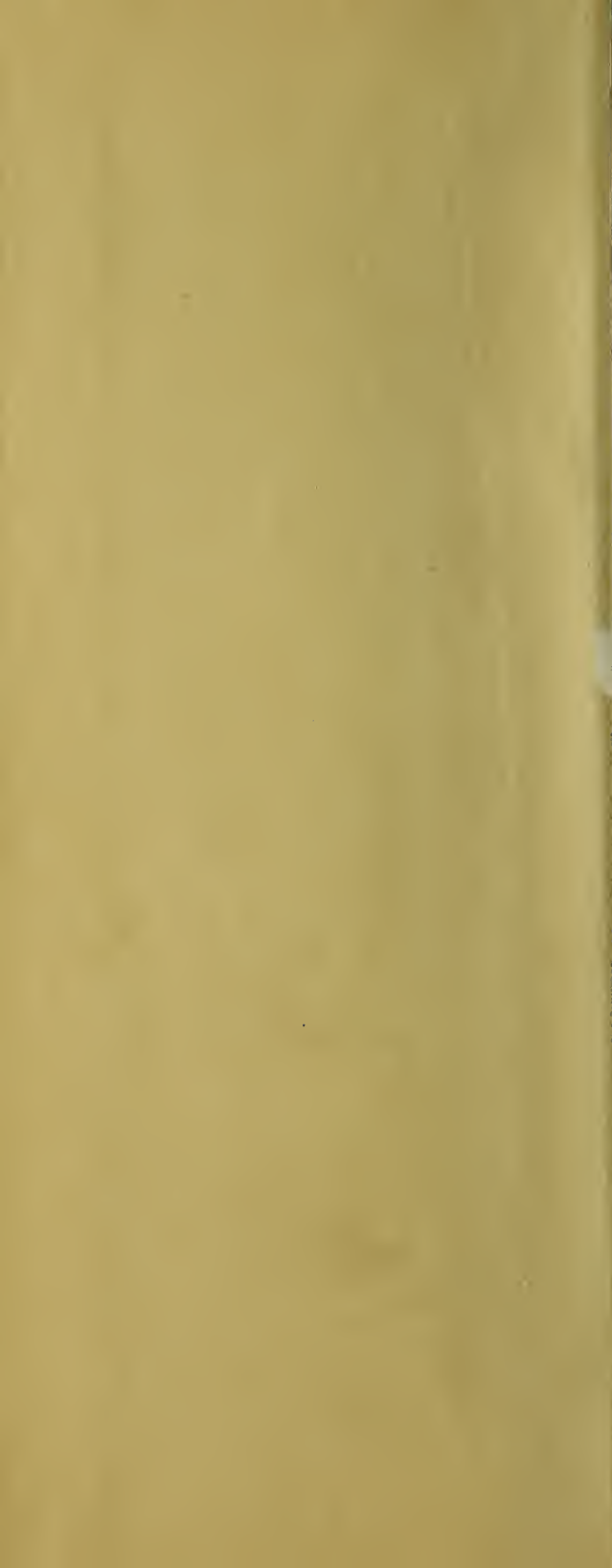
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THE DEPARTMENT OF STATE  
COMMERCIAL POLICY SERIES 51

# RECENT DEVELOPMENTS IN FOREIGN TRADE

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RADIO ADDRESS BY THE  
HONORABLE CORDELL HULL  
SECRETARY OF STATE

WITH MESSAGE OF THE  
PRESIDENT OF THE UNITED STATES

WASHINGTON, D. C., MAY 25, 1938



UNITED STATES  
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## RECENT DEVELOPMENTS IN FOREIGN TRADE<sup>1</sup>

It gives me great pleasure to read the following message which I have received from the President with reference to the celebration of Foreign Trade Week:

"This annual observance throughout the country of Foreign Trade Week is an altogether fitting recognition of the vital role of foreign commerce in the economic life of the Nation. Our own experience, no less than that of other nations, is living testimony to the fact that a healthy and vigorous flow of trade between nations is an indispensable requirement for general and lasting prosperity.

"We have profited by that experience. For 4 years our Government has been engaged in a major effort to reopen the channels of trade. The trade agreements that we have concluded with 17 foreign countries during this period attest the progress that has been made. With patient persistence we are thus gradually building more secure foundations for our own national economic well-being. At the same time we are strengthening the foundations of enduring world peace, which is so essential to the continued progress of civilization and to the well-being of the people of every land.

FRANKLIN D. ROOSEVELT."

The annual observance of Foreign Trade Week offers an excellent opportunity for focusing attention upon an extremely important phase of our national life and our international

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<sup>1</sup> Radio address by the Honorable Cordell Hull, Secretary of State, delivered from the studios of the National Broadcasting Co., Washington, D. C., May 25, 1938, in connection with the celebration of Foreign Trade Week.

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relations. In that field, the past 12 months have been characterized in our country by a number of significant developments, some of which I should like to discuss with you tonight.

There has been a steady and gratifying increase in the general recognition on the part of our people of the vital role of foreign trade as a factor in promoting the economic well-being of our Nation. There has been a similarly growing recognition of the efficacy of reciprocal trade agreements as an instrument for reopening the channels of trade and thus strengthening the forces of economic appeasement and serving powerfully the cause of durable peace.

Substantial progress has been made in carrying forward the trade-agreements program. The number of agreements has been increased to 17, and negotiations have been brought to an advanced stage with several other countries, including Great Britain, our largest single market.

Striking changes have occurred in the movements of our exports and imports. And finally, there has been an accumulation of evidence which furnishes a complete refutation by facts of a number of assertions and predictions that had been made about the program.

Almost since the initiation of the reciprocal trade-agreements program and until recently, many sections of this country were flooded with high-pressure propaganda, designed to demonstrate that the negotiation of trade agreements would result in a very large increase in imports of foreign goods without any corresponding advantages for our exports. Any increases in importations of particular commodities were seized upon as proof of these assertions, even when the existing high duties levied upon such commodities had not been affected by the trade agreements and in truly amazing disregard of other governing factors. Especially strenuous were attempts

to prove that increases in the importation of agricultural products and even decreases in the exportation of such products—both of which occurred in some measure prior to the second half of 1937—were direct results of the trade agreements that had been negotiated.

This strident chorus has now dwindled greatly from its original proportions. Assertions like these are now being put forward with ever-lessening frequency, and mostly by those who prefer to make unsubstantiated assertions rather than take time to ascertain the facts, or by those who have axes to grind and are willing to take unwarranted liberties with clearly established and easily available facts.

Why has this change taken place? Simply because facts have conclusively refuted ill-founded assertions.

Trade figures for the year 1937 show that during that year, as compared with the year 1936, our total commodity exports increased by 889 million dollars, while our imports rose by 661 million dollars. This same tendency has continued in an even more striking manner into the year 1938. During the first 3 months of the current year, our exports continued to expand and actually increased by 115 million dollars, while our imports declined by 291 million dollars.

As regards agricultural exports and imports, the figures for the first 3 months of this year are extraordinarily illuminating. During the months of January, February, and March of 1938, as compared with the corresponding period of 1937, the exports of crude and manufactured foodstuffs of agricultural origin rose in value from 47 million dollars to 111 million dollars; while the imports of foodstuffs fell from 221 million dollars to 130 million dollars.

The repercussions of the catastrophic droughts which affected many of our important farm areas in 1934 and 1936 are clearly reflected in these figures. The impairment of some of our staple crops reduced or almost an-



nihilated our ability to export such commodities and in some cases led to abnormal and temporary importations. As the effects of the droughts have worn off, the situation in this respect has become reversed.

Trade in the principal cereals is an outstanding case in point. During the first 3 months of 1938, as compared with the first quarter of 1937, our exports of wheat increased from 133,000 bushels to 25,674,000 bushels, while our imports of wheat dropped from 8,000,000 to 87,000 bushels. Our exports of corn rose from 51,000 to 38,500,000 bushels, while our imports of that grain practically disappeared.

Another illustration is trade in meat products. This year, as compared with last year, exports of lard and other meat products are showing substantial gains, while imports of such products are showing declines from the abnormally high levels which had resulted from drought conditions.

One would search in vain through the voluminous propaganda that has been from time to time unleashed in the farm areas for more than the most casual or sporadic reference to the influence of the droughts upon our exports and imports of agricultural commodities.

Apart from the effects of the droughts, the relative development here and abroad of general economic activity has played an important role in the movements of our exports and imports. Prior to the latter part of 1937, the expansion of business activity proceeded faster in the United States than in other parts of the world. This was reflected in increased imports of raw materials, necessary for the operation of our mills and factories, and of consumption goods, the buying of which was made possible by the growth of purchasing power in the hands of our people. During the past few months, the relatively greater slowing down of business activity in our country has been reflected in the sharp decline of imports, while our exports have continued to grow.



This tremendous drop in the volume of our imports is not a sign of prosperity. It is the exact reverse. Leaving aside the commodities affected by the drought, the major portion of the decrease in imports is accounted for by raw materials and semimanufactures. These shrinking imports are indicative of idle mills and factories and of increased unemployment. They were not caused by a displacement of American finished products by foreign goods. On the contrary, the imports of finished manufactures have also declined substantially. Our country will be far better off when recovery from the present temporary decline in business activity will necessitate an increase rather than a shrinkage of the volume of imports.

The recent sharp decline in imports has another definitely unfavorable implication. Sooner or later it must lead to a decrease of exports, since trade must necessarily be a two-way process. The fact that so far our exports have been maintained on a high and rising level has been, indeed, fortunate for us. The growing volume of exports has unquestionably served to mitigate many important phases of the present business recession, the manifold causes of which I need not discuss in this connection.

To the growth of our exports the reciprocal trade-agreements program has made an important contribution. In 1937, as compared with 1936, our sales to the countries with which trade agreements had been negotiated increased by 41 percent, while our sales to nonagreement countries rose by 34 percent. The reduced tariffs, enlarged quotas, and other forms of improved treatment which we have secured, through the trade agreements, from 17 countries for hundreds of our agricultural and industrial commodities have created better market opportunities abroad for many of our vital surplus-producing branches of agriculture and industry.

In return for these concessions secured for our exports we have granted moderate reduc-

tions in our tariffs on some of the commodities imported into the United States of which the agreement countries are the chief sources of supply. These reductions are designed to facilitate for the other countries the marketing in the United States of such products as we need and want, as economic improvement will expand the demand in this country for all kinds of goods, domestic as well as foreign. At the same time, sales in the United States will enable foreign countries to maintain and increase their purchases of American products.

The reductions in our duty rates have been made with the utmost care and on the basis of thorough and painstaking examination of all pertinent factors, domestic and international. Where necessary, they have been safeguarded by means of such devices as the customs quota. In spite of this, the negotiation of almost every agreement has been accompanied by vicious attacks, on the specious plea that the American market was being thrown wide open to foreign competition and that some branches of industry or agriculture were being injured or destroyed.

In the main, the attacks have subsided or entirely disappeared as soon as the terms of the particular agreement became known. Nearly 4 years of operation of the trade-agreements program have belied completely the dire prophecies of injury and destruction to American farmers, workmen, and businessmen, in which critics of the program have so freely and so recklessly indulged. Despite all this, each new set of negotiations still serves as an occasion for renewed attack and for a new outpouring of dark prophecies.

This was conspicuously the case in connection with the recently negotiated Czechoslovak agreement. The veritable hysteria which raged in some sections of the country in connection with the moderate and rigidly safeguarded concessions made in that agreement on certain types of shoes has led a competent

observer, speaking 3 weeks ago before the annual convention of the Chamber of Commerce of the United States, to remark:

“Exaggerations and misrepresentations like these are fast alienating fair-minded persons, who some time ago began to wonder whether some of the opponents of the program really want a fair consideration of its possible benefits to the whole people.”

What we are seeking to accomplish by means of reciprocal trade agreements is to create such a basis for international trade as will enable mutually beneficial commerce among nations to flow more and more into the channels of natural advantage. Reasonableness and moderation in the choice and application of the devices which nations employ for the safeguarding of domestic producers is an all-important feature of this constructive basis of trade; this end we seek to attain through reciprocal reduction of excessive trade barriers. Nondiscriminatory treatment of trade is another all-important feature; this end we seek to attain through the use of the unconditional most-favored-nation treatment.

Upon this basis, we are prepared to negotiate mutually advantageous trade agreements with all nations. Similarly, we are prepared to extend the benefits of concessions, which we grant in such trade agreements, to all nations willing in turn to extend nondiscriminatory treatment to our trade.

That is the essence of our trade-agreements program. Our efforts are governed, not by abstract theories, but rather by the lessons of long practical experience—our own, as well as that of other nations. Human ingenuity has devised no more effective basis for a progressive development of international commerce than that of fair dealing and equality of treatment.

International trade is not a panacea for all the manifold ills that afflict our country and

the world at the present time. It will not alone bring us prosperity. Yet without its expansion on a sound and constructive basis full and sustained prosperity is impossible for any nation.

Our country, in common with all countries of the world, is confronted today with many domestic and international problems of the utmost gravity. The solution of these problems requires from each nation vigorous and cooperative effort at home and thoroughgoing economic appeasement internationally. And an indispensable foundation for both is healthy and expanding trade among nations.

What is fundamentally at stake today is no less than the very survival of the entire western civilization that has been laboriously built up through centuries. History offers abundant proof that the development of order under law and the growth of international commerce have been among the principal forces which have shaped and nourished the progress of that civilization. An urgent and outstanding task confronting mankind today is a revitalization of these two great forces—a reassertion of order under law in the relations among nations and a reinvigoration of healthy international trade.

The alternative is fearful to contemplate. But it must be faced by all thinking people today, everywhere. Stable and durable peace and orderly progress in any region cannot be established except upon moral principles and a sound economic foundation. In the long run excessive efforts toward autarchy will undermine and break down the domestic economic structure of the country persisting upon such a course. The resulting economic collapse will drag down with it the political structure of government and to a disastrous extent the social structure of the nation. Too many nations in the world are today steering straight in the direction of such an economic, political, and social Niagara.

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THE DEPARTMENT OF STATE  
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WHAT  
TRADE AGREEMENTS MEAN  
TO THE COTTON GROWER

ADDRESS BY THE  
HONORABLE FRANCIS B. SAYRE  
ASSISTANT SECRETARY OF STATE

BEFORE THE  
DELTA CHAMBER OF COMMERCE  
CLEVELAND, MISS., JUNE 15, 1938



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GOVERNMENT PRINTING OFFICE  
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## WHAT TRADE AGREEMENTS MEAN TO THE COTTON GROWER<sup>1</sup>

I feel happy and proud that you have invited me to be your guest today. I'm glad to be here and to have the chance of seeing again my warm friend and former associate in Washington who has done so much for the cotton farmers of the South, Mr. Oscar Johnston. I'm glad also to have the chance of meeting new friends here and of coming to know more intimately this very important section of our country. For, as I see the picture, there can be no prosperity for our Nation without prosperity for the South; and there can be no prosperity for the South without prosperity for the cotton grower. Here we are in the very heart of the Cotton Belt. Your problems are most emphatically the Nation's problems.

### I

I am told that this immediate Yazoo-Mississippi Delta area produces a very large part of the long-staple cotton grown in the United States, and that its annual production of all cotton runs in the neighborhood of a million bales, in addition to some 400,000 tons of cottonseed. While it is true that a large part of the cotton grown in this Delta area is consumed in the United States, that does not mean that this section of the country is less vitally concerned in foreign cotton markets than those areas which ship the bulk of their cotton abroad. At the very outset I want to make clear the inescapable

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<sup>1</sup> Address by the Honorable Francis B. Sayre, Assistant Secretary of State, before the Delta Chamber of Commerce at the Athletic Stadium of Delta State Teachers College, Cleveland, Miss., June 15, 1938.

and absolute interdependence of different sections of our country, one upon another. Here in the Delta area you have an interest no less vital and direct than that of every other cotton grower in foreign markets for American cotton. Your income, like the income of every other cotton grower, irrespective of how much cotton each happens to sell abroad, is dependent upon foreign demand for American cotton and upon the price for which our great exportable surplus can be sold in the world market. Our domestic cotton price hinges upon the world price. Believe me, there is not a cotton grower in the country who does not have a stake, and a very real stake, in our Government's present program for reopening foreign markets for cotton and other American products.

Underlying our entire national economic life is this striking interdependence of the different sections of our country. It is not merely that the income of every cotton grower is dependent upon the amounts of cotton produced in other cotton areas, as well as upon foreign markets halfway round the world. The economic life of agricultural areas is dependent upon industrial areas, and that of industrial areas is dependent upon agricultural areas. The fact is that if foreign trade is blocked by impassible barriers so that industrial areas are unable to sell abroad their surplus automobiles and radios and machinery and other manufactured products, the factory workers in those areas, thrown out of work or with reduced pay rolls, will be unable to buy the cotton goods and meat and butter and other agricultural products which they want and would buy if they had the money; and if in our great agricultural areas we are unable to sell abroad our surpluses, such as cotton and hog products and tobacco, our farmers and agricultural workers will be unable to buy the mill products—the clothes and machinery and tools and radios and automobiles—which they want and would buy if they had the money. In other words, if through loss



of foreign markets economic stagnation touches our industrial areas, farmers lose domestic markets with corresponding loss of income; and if economic stagnation touches our agricultural areas, our city dwellers and factory workers lose domestic markets with corresponding loss of income. You see, every section of our whole great country is economically intermeshed so closely with every other section that the economic conditions of one are directly dependent upon those of the others. The prosperity of each is built on the other. And the prosperity of all depends upon the flow of products continuing uninterrupted to domestic and foreign markets, so that the output can be continuously disposed of and not become dammed up so as to stop production. You can easily see how the loss of foreign markets throws a monkey wrench into our whole economic machine. Loss of foreign markets means American surpluses unsalable, production stopped or reduced, the threat of depressed prices for the entire output through the flooding of domestic markets with surpluses unsalable abroad.

It must be clear, therefore, that, just as the actual income of our farmers is dependent upon the economic prosperity of the industrial sections of our country, so the prosperity of our industrial sections, and indeed of our entire country, is vitally dependent upon our farmers. This is particularly true of our cotton farmers, for more than half the population of the South is dependent, directly or indirectly, upon cotton for its income. It is not too much to say that cotton is one of the cornerstones of our American economic structure.

It is not merely that the manufacturing centers of the country are vitally dependent upon the prosperity of the cotton-growing States. The agricultural regions of the North and West are equally concerned. Some 58 percent of the total farm population of the United States today live in the 16 cotton States. In these circumstances, consider what a permanent curtail-

ment of market outlets for cotton would mean. A substantial part of this vast population in the cotton States would be compelled either to take up the production of other crops or else to migrate to the cities and thus further swell the vast reservoir of labor supply already available in our industrial centers. If the South is compelled, on a rapidly increasing scale, to turn to the commercial production of dairy and livestock products and feed crops, the effects of this new competition will inevitably be felt keenly throughout the other farming regions.

So you see that this problem of reopening and increasing market outlets for cotton is not merely a regional problem. It is a national problem—of vital concern to industry, to agriculture, to labor, and to business generally, throughout the entire country.

Often in administering our trade-agreements program, alas, we are brought face to face with narrow sectional attitudes on the part of those serving selfish interests or acting for particular sections of the country. But the menace of economic breakdown on a world scale is too real today to tolerate selfish sectional measures. The day is past for that—we are face to face now with Nation-wide and world-wide problems, grim and menacing. If we are successfully to meet and cope with them it can be only through a program fashioned for the welfare of the Nation as a whole.

## II

From the national viewpoint, what is the problem of cotton? As already suggested, for a prosperous United States the prosperity of the South is absolutely vital, and the prosperity of the South is dependent upon cotton. From its early days, our country, because of its climatic conditions, its rich and fertile soils, and for other reasons, has excelled in cotton production; and under the stimulus of foreign demand we have come to produce more cotton than we could sell at home.

Through the years we have consequently developed an economic and social structure throughout the South dependent upon the sale of huge surpluses abroad. In 1929 we sold in foreign markets over 770 million dollars' worth of cotton.

In the past the South has sold within the United States less than half of its annual cotton production. If foreign markets are lost for American cotton, ruin faces the South. Surpluses unsalable abroad are thrown back onto home markets; the price of cotton is forced down to disastrous levels. Cotton planters are unable to meet their obligations; cotton pickers, ginner, and handlers are forced to work for little or nothing. Plantation people can't buy; stores can't sell; banks can't collect their loans. Bankruptcies multiply, and economic stagnation brings in its wake growing unemployment and social problems for which there is no solution. The life of the South is built directly upon foreign markets and foreign purchasing power for American cotton.

Following the economic crash of 1929, in the face of dropping commodity prices, fluctuating currencies, and stimulated efforts on the part of many to dump their goods onto world markets for whatever they would bring, the nations of the world proceeded to barricade themselves through import restrictions of every variety against imports from other nations. As a result of these arbitrary and effective barriers, international trade by 1932 had dropped to a third of its former value. Our exports shrank from \$5,157,000,000 in 1929 to \$1,647,000,000 in 1933. With this slump in international trade went swiftly diminishing foreign purchasing power. Nations whose income was cut because of inability to sell their exports obviously could not buy as much cotton and other foreign goods as they wanted and were accustomed to.

Here, then, is the heart of the American cotton problem. With foreign markets rapidly falling off because of impassible barriers block-

ing international trade and the consequent growth of economic nationalism, how practically can American cotton farmers producing great surpluses beyond our present national needs get paid for these surpluses? In other words, how can farmers engaged in producing surplus cotton crops secure an adequate living wage?

### III

It is manifest that the mere impounding of the surpluses by the Government, while justifiable in some instances in order to meet temporary emergencies, is no real solution. If any proof of this were needed, the experience of the old Federal Farm Board is amply sufficient. In what direction then must a solution be sought?

The problem may be attacked from either side—through curtailment of production, or through the building up of increased markets at home and abroad; or again the attack may be made from both sides simultaneously.

When surpluses are pressing upon shrunken market outlets at home and abroad, production curtailment may be temporarily necessary in order to execute what has been described as a strategic retreat from an adverse market situation. But the ultimate goal requires that we advance rather than retreat. That means that a way must be found for utilizing the productive effort of our people to the full and in the most effective channels.

Clearly the only solution for our cotton problem that is really sound and permanent must embrace the building up of increased markets at home and abroad.

How practically can this be done?

One method currently proposed for the winning of foreign markets is the payment of export subsidies. This means that we attempt to sell our surpluses abroad for whatever prices will move them, the difference between the higher domestic and the low world prices be-



ing paid out of the Government Treasury to exporters. The removal of the surplus would be expected to produce high domestic prices, and these high domestic prices would be protected by excluding imports of the product in question.

Suppose this method of the "two-price system," as it has been called, were applied to cotton. Cotton has the advantage over many other of our surplus commodities in that it is sorely needed by many countries which do not produce it and which would therefore welcome the chance to import it at bargain prices. But the difficulty is that other cotton-exporting countries would undoubtedly adopt the same methods in competition with us, reducing their own export prices, through subsidies or otherwise. The inevitable result would be a contest between all cotton-exporting countries to see which could come closest to giving away at the expense of its own taxpayers its exportable surplus of cotton to the great cotton-consuming countries of Europe and of the Orient.

How would it all work out? One of the consequences would be that our own cotton mills and domestic consumers of cotton would be compelled to pay more for their cotton than those buying in world markets. You can readily perceive the widespread economic dislocation and disruption throughout the country which that would cause. In the words of Mr. Oscar Johnston, speaking before the National Foreign Trade Council in Cleveland last November: "It is unthinkable that America would adopt a policy under which American textile manufacturers would be called upon to pay one price for American cotton, while Japanese, British and other textile organizations might be permitted to purchase American cotton at a lower price." Exactly so.

The illusory remedy of export subsidies would be foredoomed to failure from the very outset. For the method's very success in heightening domestic over world prices would

mean inevitably (*a*) a shrinkage of domestic markets due to heightened cotton prices, and (*b*) an increase of the annual surpluses due to production being stimulated through higher returns, unless indeed the scheme were supplemented with rigid production restrictions. In other words, the very relief sought, embodied in artificially heightened domestic prices, would spell defeat in the form of reduced home markets and increased surpluses.

Once we embark in a wholesale way upon export subsidies we are drifting down a perilous current which would handicap us gravely in our efforts to reopen market outlets for cotton. It would be inevitable that other groups would demand from Congress export subsidies for their products, and these demands, backed by powerful pressures, could scarcely be successfully resisted. Presently we would be launched in a big way upon the two-price system.

Yet the two-price system in its very essence is an attempt to achieve the impossible. It is an effort to increase our exports by costly Treasury subventions at the same time that we build up our tariff wall to protect our artificially heightened domestic prices. Surely no one, least of all our cotton farmers, can regard as sound a policy built upon artificially increased exports simultaneously with curtailment of imports. Such a policy is what Mr. Chester Davis has aptly described as a "double-jointed policy of exclusion and subsidized exports." Trade is a two-way process; nations cannot continue to sell if they will not buy. In the final analysis the only sound way to increase exports is to import more goods and services from foreign countries.

Practical experience in numerous countries which have adopted export subsidies has shown that this method in fact creates more problems than it solves. Export subsidies are powerless to move exports in the face of foreign quota restrictions, import licenses, exchange controls, and antidumping laws; unless accompanied by

severe and rigid crop-restriction measures they tend to stimulate production artificially and thus intensify the problem; and they constitute an uneconomic giving away of our substance to foreign nations for less than cost. From an economic viewpoint export subsidies offer no real solution. Practically, they result in economic conflict, retaliation, and mounting trade barriers on the part of other nations. The same measures which we call export subsidies when used by ourselves we call dumping when used by other nations; and our own laws penalize the goods of other nations following this practice.

Is there no sounder or better solution of the great national problem of cotton than this? To embark on such a course would lead us astray and bog us down in a hopeless quagmire of difficulties both at home and abroad.

#### IV

Surely the soundest and most effective way to find increased markets at home and abroad is to remove or reduce the excessive and economically unjustifiable trade barriers which since 1929 have been disastrously blocking the trade highways of the world. Under present-day conditions the most practical way to move for increased foreign markets and the elimination of foreign trade discrimination against American exports is by a series of agreements with individual countries to bargain down excessive trade barriers and reciprocally to guarantee each other's trade against discrimination. This is the method adopted by Congress in the Trade Agreements Act of 1934. This is the heart of the American trade-agreements program.

How does this program practically help the cotton farmer? From its successful operation can he expect any real and practical benefits? In the last analysis is it not true that the great cotton-consuming countries to which we sell our cotton so badly need it that there is little danger

of quota restrictions, import licensing requirements, or other trade barriers being erected to exclude it? How will it profit cotton growers to bargain down trade barriers?

If we are to look facts in the face we must realize that the real reason for shrinking export markets for American cotton is not trade barriers erected to exclude it but loss of foreign purchasing power with which to buy it. European nations today need and badly want more American cotton. But they do not possess, and because of our excessive tariffs, they cannot obtain by the sale of their goods to the United States sufficient dollar exchange to pay for what they want. The trade-agreements program is a practical way of building up our own and foreign purchasing power. When we reduce our tariff duties in trade agreements and thus enable foreign countries to sell us more of their products, we increase their purchasing power for our exports.

Moreover, it is well to remember that, while there are few tariff duties on cotton, there are nevertheless other forms of international trade control which result in severe shrinkage of markets for American cotton. In such countries as Germany and Italy, for instance, exchange restrictions and other measures associated with economic nationalism have resulted in greatly reduced cotton consumption and the substitution for it of other fibers. In Germany rayon production increased 145 percent and in Italy 123 percent in the 4 years ended 1935-36, while cotton consumption in both countries declined. Between 1933 and 1937, German cotton consumption declined by over 500,000 bales, practically all of the decline being American cotton. Facts such as these show clearly that whatever makes against economic nationalism and for international trade aids the American cotton farmer. And this is the very fight which we are making in our trade-agreements program.

The real value of the trade-agreements program to the cotton farmer, however, is by no



means confined to foreign markets. The cotton farmer is as vitally interested in the domestic market as in the foreign one. Some 6 or 7 million bales of domestic cotton are normally consumed in the United States—approximately half the entire crop. Obviously, therefore, cotton farmers must support any program which tends to increase domestic markets.

One of the central objectives of the trade-agreements program is to build up increased *domestic* markets and increased domestic purchasing power. If, for instance, we can sell abroad more automobiles, automobile factory workers in the United States can and will buy more cotton goods, more shoes, more meat, more butter, than they otherwise could. Moreover, automobile factories will be buying iron and other raw material from every section of the country; and this in turn will mean increased pay rolls and increased purchasing power in every place from which they buy. Workmen in these places will in turn buy goods coming from still other sections of the country. Each sale of surplus products abroad creates a chain of economic transactions within the country, the total effect of which is to increase purchasing power beyond the volume represented by the original sale; and increased purchasing power is what makes prosperity. Trade increases employment, creates profits, and raises the general level of well-being.

When trade is brisk and industry generally is active, the mill demand for cotton goes up; when trade and industry are depressed, domestic markets fall off. Cotton consumption, as everyone knows, varies directly with general industrial activity. And general industrial activity depends upon an uninterrupted flow of trade and upon strengthened foreign markets for the sale of domestic surpluses. Recent studies have shown that the total consumption of cotton in the United States would be 25 per cent greater than it was in 1929 (a high year)

if wage earners and farm communities were consuming cotton products in quantities equal to those required to maintain a level of living adequate to insure proper health and social conditions.

Finally, I need not remind you that increased foreign and domestic markets for cotton, and indeed the entire prosperity of American cotton growers, depend vitally upon world prosperity. During periods of severe depression throughout the world, the slackening in the demand for raw cotton is quickly reflected in falling prices. All of us remember only too well such a situation a few years ago when cotton fell to about 5 cents a pound. Careful studies indicate that a 10-point rise or fall in the average world index of industrial production normally results in a rise or fall of about 2 cents a pound in the price of American cotton.

But world prosperity, in turn, is closely dependent upon international trade. The blocking of international trade and the increase of economic nationalism results inevitably in depressed standards of living and industrial stagnation. The success of the trade-agreements program undeniably spells increased world consumption of cotton and increased incomes for American cotton growers.

## V

Has the trade-agreements program in its actual operation proved really effective in increasing American foreign trade and in combating economic nationalism? I believe it fair to say that it has. Since the inception of the program 17 trade agreements have been concluded with countries accounting for 40 percent of our total foreign trade. Additional negotiations are in progress. We have already concluded one, and are now negotiating a second, agreement with our second largest customer, Canada. We are also negotiating an agreement with our largest

customer, Great Britain, which ordinarily buys over a third of our agricultural exports.

Since the inauguration of the program foreign trade has approximately doubled. Manifestly it would not be fair to ascribe this increase to trade agreements alone. But that they substantially stimulated foreign trade is indicated by the fact that during the 2-year period of 1936-1937, in comparison with the preceding 2-year period (1934-1935), the increase in United States exports to all trade-agreement countries was 41.9 percent, whereas the increase of our exports to non-trade-agreement countries was but 25.9 percent. Agricultural exports to the 16 countries with which trade agreements were in effect for all or part of 1937 were 40 percent greater than they were in 1935; to all other countries, meanwhile, agricultural exports declined by 4 percent.

I do not want to weary you with statistics. I do not want to weary you with long recitals of specific concessions procured for particular American exports through trade agreements. Suffice it to say that these concessions have been numerous and of very great importance. American exports have been guaranteed against discrimination in foreign countries, excessive trade barriers have been broken down or reduced, and American foreign trade has been substantially increased.

To our southern farmers, and therefore to the South as a whole, foreign trade is a matter almost of life or death. From early days southern leaders have recognized this. If foreign markets are lost for American cotton, the South faces economic prostration.

The prosperity of the United States is due in no small degree to the dominant position of American cotton in the markets of the world. But if by excessive tariffs such as have no justification beyond purely selfish sectionalism we insist upon depriving foreign buyers of the purchasing power and dollar exchange necessary

for buying our cotton, we must not be surprised if Brazil and Africa and other foreign regions capture the world markets out of which our own sectional tariff measures have crowded us.

For many years unhappily the South has suffered under a system of mounting tariff barriers whereby southern cotton growers and southern farmers were forced to sell their goods in world markets while buying their necessities in a highly protected one. What the South needs is increased foreign markets and reduced tariffs. Upon these her entire economic existence depends. If there is one feature of present American policy which more than all others the South should aggressively fight to strengthen and safeguard, it is the trade-agreements program.



# The Problem of Surpluses and the American Trade-Agreements Program

*Address by*

FRANCIS B. SAYRE

*Assistant Secretary of State*

*before the*

INSTITUTE OF PUBLIC AFFAIRS

UNIVERSITY OF VIRGINIA

Charlottesville, Va., July 7, 1938



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# The Problem of Surpluses and the American Trade-Agreements Program

*Address by Assistant Secretary Sayre*

I PARTICULARLY appreciate this chance of meeting with you this evening and talking over a subject so vital to this country's business and to our whole American economy as our foreign commercial policy. I suspect that we in America are only beginning to realize how closely and intimately the question of our domestic prosperity hinges upon foreign markets halfway across the world.

## I

The American trade-agreements program, which has been regarded by economists and statesmen throughout the world as one of the most constructive movements anywhere toward world recovery and toward world peace, has unhappily in our own country been made a battleground for politics. That is particularly unfortunate, for the program was not conceived as a Democratic measure or as a Republican measure. It grew out of a great national need and a world-wide emergency. Our foreign policy, both in its commercial and its political phases, should transcend party politics. The trade-agreements program was formulated solely upon the basis of sound business and economic principles; it has been administered with scrupulous care to serve the welfare of the Nation as a whole, and not to serve the special interest of any particular political party or clique or of any one section of the country or

of any single occupational group. It is distinctively an American program for the benefit of the whole American people.

Today our entire national economic life is built upon a striking interdependence of the different sections of our country, the one upon the other. The economic life of agricultural areas is dependent upon industrial areas, and that of industrial areas is dependent upon agricultural areas. The fact is that if foreign trade is blocked by impassable barriers so that industrial areas are unable to sell abroad their surplus automobiles and radios and machinery and other manufactured products, the factory workers in those areas, thrown out of work or with reduced pay rolls, will be unable to buy the meat and butter and other agricultural products which they want and would buy if they had the money; and if in our great agricultural areas we are unable to sell abroad our surpluses, such as cotton and hog products and tobacco, our farmers and agricultural workers will be unable to buy the mill products—the clothes and machinery and tools and radios and automobiles—which they want and would buy if they had the money. In other words, if through loss of foreign markets economic stagnation touches our industrial areas, farmers lose domestic markets with corresponding loss of income; and if economic stagnation touches our agricultural areas, our city dwellers and factory workers lose domestic markets with corresponding loss of income. You see, every section of our whole great country is economically intermeshed so closely with every other section that the economic conditions of one are directly dependent upon those of the others. The prosperity of each is built on the prosperity of all.

Often in administering our trade-agreements program, alas, we are brought face to face with narrow sectional attitudes on the part of those serving selfish interests or acting for particular sections of the country. But the menace of



economic breakdown on a world scale is too real today to tolerate selfish sectional measures. The day is past for that. We are face to face now with Nation-wide and world-wide problems, grim and menacing. If we are successfully to meet and cope with them it can be only through a program fashioned for the welfare of the Nation as a whole.

## II

One of the fundamental problems which our country faces today, as all of you know, is how to dispose of our surplus products. America is geared to produce more of certain staple and other commodities than we can consume. Because of the uneven geographical distribution throughout the world of natural resources, because of wide variations throughout the world in climates, in racial aptitudes, in trade conditions, certain countries excel in the production of some commodities, others in different ones. This has brought about from earliest times the development of international trade. Trade has thus always been an enriching as well as a civilizing influence.

With the building up of modern industry this movement has grown to gigantic proportions. Industrial nations have become vitally dependent for their very existence upon the uninterrupted exchange of raw materials for manufactured goods and vice versa.

Our own country, in spite of its varied natural resources and vast area, is no exception. The United States must normally sell abroad about three-fifths of its cotton crop, a fifth of its wheat, two-fifths of its leaf tobacco, a third of its lard, a third of its rice, almost half of its dried fruits, as well as enormous quantities of automobiles, agricultural and other machinery, typewriters, radios, and the like.

You can easily see how the loss of foreign markets throws a monkey wrench into our whole economic machine. Loss of foreign markets

means American surpluses unsalable, production stopped or reduced, prices depressed for the entire output through the flooding of domestic markets with surpluses unsalable abroad. If, for instance, the sales abroad of American cotton are seriously curtailed, not only are cotton planters, pickers, ginner, and transport workers thrown out of work, but cotton markets at home are flooded with unsalable surpluses and cotton prices thus forced down to levels which work disaster throughout the South. Strip our export industries of foreign markets and you drive millions of Americans out of the only forms of employment by which many of them can live, and seriously affect the prosperity of millions of other Americans through the curtailment of domestic markets.

Following the economic crash of 1929, in the face of dropping commodity prices, fluctuating currencies, and stimulated efforts on the part of many to dump their goods onto world markets for whatever they would bring, the nations of the world proceeded to barricade themselves through import restrictions of every variety against imports from other nations. As a result of these arbitrary and effective barriers international trade by 1932 had dropped to a third of its former value. Between 1929 and 1933 the value of American exports fell from \$5,157,000,000 to \$1,647,000,000. The resulting repercussions throughout our domestic economy threatened disaster. American exports of cotton decreased in value by 48 percent, those of meat and meat products by 67 percent, and those of wheat and flour by 90 percent.

Figures such as these bring home the problem. American domestic prosperity is dependent upon the wheels of production, particularly in certain of our strongest and most rewarding producing areas, continuing to turn with unlessened activity; and this in turn is dependent upon finding some practical way to dispose of such surplus production as cannot be profitably sold within the United States.

Take, for example, the problem of crop surpluses. With foreign markets rapidly falling off because of impassable barriers blocking international trade and the consequent growth of economic nationalism, how can American farmers producing great surpluses beyond our present national needs get paid for these surpluses? In other words, how can farmers engaged in producing surplus crops secure an adequate living wage?

### III

It is manifest that the mere impounding of the surpluses by the Government, while justifiable in some instances in order to meet temporary emergencies, is no real solution. If any proof of this were needed, the experience of the old Federal Farm Board is amply sufficient. In what direction then must a solution be sought?

The problem may be attacked from either side—through curtailment of production, or through the building up of increased markets at home and abroad; or again the attack may be made from both sides simultaneously.

When surpluses are pressing upon shrunk market outlets at home and abroad, production curtailment may be temporarily necessary in order to execute what has been described as a strategic retreat from an adverse market situation. But the ultimate goal requires that we advance rather than retreat. That means that a way must be found for utilizing the productive effort of our people to the full and in the most effective channels.

Clearly the only solution for our problem of surpluses that is really sound and permanent must embrace the building up of increased markets at home and abroad.

How practically can this be done?

Some have suggested as the most effective method a sweeping reduction in the American tariff. By enabling American farmers to buy

the things they need at lower prices and by enabling foreign nations to increase their sales to American buyers and thus obtain sufficient dollar exchange to buy more American products, we could at once enlarge and strengthen our world markets. Such a program has the advantage of simplicity and directness.

But we live in a very practical world. Who can believe that it would be possible today for the Congress to enact legislation making sweeping reductions in our tariff? Political forces with sectional ends in view wage incessant war in season and out of season for ever higher tariff rates—not lower ones. To throw open the tariff at this time to sweeping congressional revision would be to give full play to narrow sectional interests rather than to great national ones.

Furthermore, as a result of the economic armament which has been built up in foreign countries, particularly since 1929, our own tariff walls are not the only obstructions to the flow of international trade. Many foreign countries today are bristling with excessive tariffs, import restrictions, quota limitations, exchange controls, and the like. Unless we can secure the elimination or reduction of excessive trade barriers on *both* sides of the ocean, international trade will not increase significantly and foreign markets cannot be made secure.

Another method currently proposed for the winning of foreign markets is the payment of export subsidies. This means that we attempt to sell our surpluses abroad for whatever prices will move them, the difference between the higher domestic and the low world prices being paid out of the Government Treasury to exporters. The removal of the surplus would be expected to produce high domestic prices, and these high domestic prices would be protected by excluding imports of the product in question.

But, alas, the illusory remedy of export subsidies would be foredoomed to failure from the



very outset. For the method's very success in heightening domestic over world prices would mean inevitably (*a*) a shrinkage of domestic markets due to heightened domestic prices, and (*b*) an increase of the annual surpluses due to production being stimulated through higher returns, unless indeed the scheme were supplemented with rigid production restrictions. In other words, the very relief sought, embodied in artificially heightened domestic prices, would spell defeat in the form of reduced home markets and increased surpluses.

Furthermore if Congress opens the floodgates by voting export subsidies to assist certain groups of producers, as surely as the night follows the day other groups would demand from Congress export subsidies for their products; and these demands, backed by powerful pressures, could scarcely be successfully resisted. Once we embark in a wholesale way upon export subsidies we are drifting down a perilous current which would handicap us gravely in our efforts to reopen market outlets for American surpluses.

Practical experience in numerous countries which have adopted export subsidies has shown that this method in fact creates more problems than it solves. Export subsidies are powerless to move exports in the face of foreign quota restrictions, import licenses, exchange controls, and antidumping laws; unless accompanied by severe and rigid crop-restriction measures they tend to stimulate production artificially and thus intensify the problem; and they constitute an uneconomic giving away of our substance to foreign nations for less than cost. Export subsidies offer no real solution. They result in economic conflict, retaliation, and mounting trade barriers on the part of other nations. The same measures which we call export subsidies when used by ourselves we call dumping when used by other nations; and our own laws penalize the goods of other nations following this practice.

To embark on such a course would lead us astray and bog us down in a hopeless quagmire of difficulties both at home and abroad. Is there no sounder or better solution of the great national problem of finding market outlets for our surpluses than this?

#### IV

Surely the soundest and most effective way to find increased markets at home and abroad is to remove or reduce the excessive and economically unjustifiable trade barriers which since 1929 have been disastrously blocking the trade highways of the world; and under present-day conditions the most practical way to achieve this is by a series of agreements with individual countries to bargain down excessive trade barriers and reciprocally to guarantee each other's trade against discrimination. This is the method adopted by Congress in the Trade Agreements Act of 1934. This is the heart of the American trade-agreements program.

The object of the program is not, as some would have you believe, to build up our export production by the sacrifice of our nonexporting producers. Were that the result, trade agreements would work positive injury. The real objective of the program is to benefit all producers alike by restoring prosperity through increased trade. Increased domestic markets constitute our objective quite as much as increased foreign markets.

If, for instance, we can sell abroad more automobiles, automobile factory workers in the United States can and will buy more shoes, more meat, more butter, than they otherwise could. Moreover, automobile factories will be buying iron and other raw materials from every section of the country; and this in turn will mean increased pay rolls and increased purchasing power in every place from which they buy. Workmen in these places will in turn buy goods coming from still other sections of the country.



Each sale of surplus products abroad creates a chain of economic transactions within the country, the total effect of which is to increase purchasing power beyond the volume represented by the original sale; and increased purchasing power is what makes prosperity. Trade increases employment, creates profits, and raises the general level of well-being.

If the domestic consumption of some commodity thus increases by, say, 100,000 units, we can well afford an increased importation of, say, 10,000 units, for our domestic producers will be selling 90,000 more units than before.

In our 17 trade agreements to date we have successfully stimulated exports in those commodities in which we can obtain the greatest return and employ large numbers of American workmen, and the carefully considered duty reductions which we have made in exchange for these advantages have given American interests no real cause for complaint.

## V

Perhaps no part of the program has been more widely misunderstood than the most-favored-nation policy upon which it rests; yet this in truth constitutes the very keystone of the program, that which guarantees American exports against discrimination abroad. Most-favored-nation treatment is simply another name for nondiscrimination. For the United States to embark upon a policy of enlarging foreign markets for its products and securing them against discrimination abroad and at the same time itself to initiate at home a policy of widespread discrimination against the goods of certain foreign countries which are not discriminating against American goods would be nothing but arrant nonsense.

It is often said that because the benefit of concessions granted in a trade agreement is extended automatically to other nations we are giving away something for nothing.

Nothing could be further from the truth. We do not extend trade-agreement concessions to third nations for no return. We give such concessions to third nations only in return for their extending to us all the benefits of concessions which they have granted or may in the future grant to all other nations. In other words we give minimum-tariff treatment and freedom from discrimination in return for minimum-tariff treatment and freedom from discrimination. To nations which discriminate substantially against our trade, we do not extend trade-agreement concessions.

Experience has proved this assured freedom from discrimination to be of enormous value in dollars and cents to American trade. According to an estimate made when 14 of our trade agreements were in force, the pursuit of this policy affected approximately 30 million dollars' worth of our imports; in return it safeguarded and benefited at least 265 million dollars' worth of American exports. In other words, it is almost a nine-to-one bargain in our favor, figures which should make it obvious that the application of the most-favored-nation principle in connection with the trade-agreements program has not involved any undue generosity on the part of the United States.

Equality of commercial treatment to nations which extend the same to us has been the cornerstone of American foreign commercial policy since the founding of our Republic. It is the only fair and the only sound policy to follow. The alternative is to grant exclusive preferences, and every exclusive preference to one nation constitutes discrimination against all other nations. That is the policy leading to retaliation, to mounting trade barriers, and to increasing economic conflict. It sets the stage for war. It is the policy adopted by a number of sorely pressed nations in recent years, and its consequences have proved disastrous. It has played havoc with their own economies and

with world trade. It was to check the ravages of this very practice and to get back on the road to recovery that the Trade Agreements Act was passed.

## VI

The work of formulating and negotiating trade agreements is of a complicated and technical nature. For its execution a highly efficient interdepartmental organization has been created, headed by the Trade Agreements Committee and embracing more than 40 subcommittees dealing with countries, commodities, and special technical problems. In this work the Departments of State, Agriculture, Commerce, and Treasury, as well as the Tariff Commission, play each an important and vital part.

A really important part is also played by private business and industry. Before any commitments of any kind are made, public hearings are held so as to give to interested persons full opportunity to make representations and to present pertinent facts; and the briefs and information received from domestic producers, carefully studied by all those helping to formulate the particular trade agreement, are often of large influence in determining the direction of the ensuing negotiations.

How far has the trade-agreements program proved practical? Has anything of large significance yet been achieved? I believe it fair to say that it has.

During the 4 years since the Trade Agreements Act was passed, agreements have been concluded with 17 countries, accounting for about 40 percent of our total foreign trade. At present we are negotiating additional agreements, including a new agreement with Canada, our second largest customer, and an agreement with Great Britain, our largest customer, which ordinarily buys over a third of our total agricultural exports. When the agreements now in negotiation have been concluded, we

shall have trade agreements with countries accounting for almost 60 percent of our total foreign trade.

How far have the agreements already concluded resulted in actual increases in American exports? Since the inauguration of the program United States exports have approximately doubled. Manifestly it would not do to ascribe this increase to trade agreements alone. But that they substantially stimulated foreign trade is indicated by the fact that during the 2-year period of 1936-1937, in comparison with the preceding 2-year period, 1934-1935, the increase in United States exports to all trade-agreement countries was 41.9 percent, whereas during the same period the increase of our exports to non-trade-agreement countries was but 25.9 percent. Agricultural exports to the 16 countries with which trade agreements were in effect for all or part of 1937 were 40 percent greater than they were in 1935; to all other countries, meanwhile, agricultural exports declined by 4 percent.

Statistics show significant increases in American exports to trade-agreement countries. Cuban imports from the United States rose from 23 million dollars in 1933 to 56 million dollars in 1935, a gain of 140 percent, compared with an increase of but 100 percent in Cuban imports from all other countries. In 1936 and 1937 Cuban imports from the United States, continuing to rise, reached 66 million dollars and 89 million dollars, respectively, representing gains of 190 and 290 percent over 1933.

The Canadian trade agreement came into force on January 1, 1936. Canadian imports from the United States increased from 312 million dollars in 1935 to 369 million dollars in 1936, a gain of 18 percent. In 1937 they rose to 491 million dollars, a gain of 33 percent over 1936.

Netherland imports from the United States increased in 1937 over 1935, the year before the

trade agreement was made, by 72 percent, as compared with an increase of only 35 percent in Netherland total imports from all countries.

Similarly, Belgian imports from the United States increased in 1937 over 1934, the preagreement year, by over 70 percent, as compared with an increase of only 44 percent in Belgian total imports from all countries. The corresponding figures with respect to Switzerland were a 28-percent increase in imports from the United States and only 1 percent in total imports from all countries.

I do not want to weary you with statistics. Suffice it to say that by means of the trade-agreements program, important foreign markets have been secured for American products and American exports have been protected from foreign discrimination. American exports have increased even during a period of domestic business recession. Not a few American producers must now feel extremely thankful for their increasing export trade.

We in America have not in the past been foreign-trade minded. As a people we have been inclined to underestimate its importance, and as a consequence we allowed our foreign-trade policies to become the private preserve of interests seeking tariff subsidies through political pressure. I believe that a fundamental change in our attitude is at present taking place.

## VII

Before I close I want to say one word about a matter of infinite importance to factory workers, to mill owners, to farmers, to every American citizen. If we are to have prosperity we must have peace. And we will never be secure in peace unless and until sound economic foundations are built for it.

If trade barriers grow to impassable heights and ordinary processes of trade break down, how can nations secure the foodstuffs and raw materials necessary for their economic life and



for the lives of their people? How can national populations sell their surplus products and thereby gain the wherewithal to live? Men will fight before they starve. Uneconomic trade barriers forge the thunderbolts of war.

The trade-agreements program is important because it means building secure foundations for the prosperity of the factory worker and of the farmer, of the manufacturer and of the trader—in short, of every group of the population. But it has another and more profound significance. It means building secure foundations for peace.





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# The Outlook for the Trade-Agreements Program

*Address by*  
**CORDELL HULL**  
*Secretary of State*

*before the*  
**TWENTY-FIFTH NATIONAL  
FOREIGN TRADE CONVENTION**  
New York, N. Y., November 1, 1938



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# The Outlook for the Trade-Agreements Program

*Address by the Secretary of State*

AS THE world relaxes from the tension of last September when the peace of one of its most important regions hung in perilous balance, many observers in this country not unnaturally raise the following question: Has the swift succession of events so altered the world situation that some of the basic policies we have so far pursued have become no longer applicable and need to be discarded or revised in the light of new developments?

This question frequently relates to the outlook for the future of our trade-agreements program and the general prospect of world developments in the field of international commerce. The problem thus presented is of crucial importance for the economic well-being of our country, for our broad national welfare, and for the promotion of peace, which is the primary objective of our foreign policy.

For upwards of 4 years, our country has been carrying out a vigorous and comprehensive program of policy and action in the sphere of international economic relations. The central aim of this program has been the restoration and expansion of healthy and mutually beneficial trade among nations.

We embarked upon this program at a time when our country and the whole world were in the grip of a profound economic dislocation. The situation which we faced at the low point of the depression required a combined program of domestic and international action. To combat unemployment, to create

conditions of security and well-being for our farmers, workmen, and businessmen, to enable the entire Nation to replace a vista of despair with a prospect of economic and social advancement, it was necessary to restore solvency and stability in our financial structure, to introduce essential reforms in our economic and social organization, to rehabilitate the processes of production and trade, and thus to rebuild the Nation's income. Domestic measures, however necessary and far reaching, would not have alone sufficed to accomplish these vital purposes. They had to be supplemented by a determined effort to repair the shaken and all but shattered structure of international economic relations.

It was clear that the disruption of international commerce had been as much responsible as any other single factor for the advent and the intensity of the great depression. In the course of generations, national economies had become geared to a growing volume of interchange of commodities across national frontiers. Without expanding international trade, the steady rise of living standards—that outstanding characteristic of economic and social progress—would have been impossible. The sharp decline of international commerce, which accompanied the depression, was bound to produce a profound impairment of economic organization and activity within nations and to depress living standards everywhere. There could be no prospect of full and stable recovery, to be followed by sustained prosperity, unless mutually beneficial commerce among nations could be restored to its great role as an indispensable instrument for the promotion of economic welfare within nations.

The trade-agreements program was the principal means which we adopted for attaining this objective. The program was directed toward overcoming the two factors which had

been primarily responsible for the collapse of world commerce. The first of these was the trend toward national economic self-sufficiency, toward so-called autarchy. The second was the growing tendency on the part of nations to enter into narrow trade pacts, based upon exclusive treatment for the parties to such arrangements and consequent discrimination against all other nations. Both of these trends produced effects disastrous not only to world trade, but also to the domestic economies of all nations.

The trend toward economic self-sufficiency involved efforts to develop, behind unscalable walls of exaggerated protectionism, the production of natural or synthetic substitutes to replace imports from other regions of the world—no matter at what sacrifices of quality or cost to the consumers. The discriminatory basis of trade served inevitably to divert the currents of commerce from the channels of natural advantage, and thus to cause an irresistible contraction of the total volume of world trade.

By placing upon our statute books the Trade Agreements Act of 1934 and by inaugurating reciprocal trade-agreements negotiations, we announced to the world our willingness to reverse the policy of raising ever higher barriers to trade, which had been pursued by this country for some years with disastrous results. But our offer to reduce, in favor of foreign countries, the excessive barriers to trade represented by some of our tariff rates was made contingent upon the willingness of other countries to reduce in our favor their tariffs and other trade barriers.

In announcing our trade-agreements program, we also proclaimed our determination to continue our firm adherence to the practice of equal treatment, embodied in the unconditional most-favored-nation principle. But here again we announced that we were willing to negotiate reciprocal trade agreements only with such

countries as were willing, in turn, to extend to us this type of treatment under the guarantee of that principle.

It was in this reciprocal and eminently equitable manner that we sought to make our attack upon the ruinous practices of exaggerated protectionism and discriminatory treatment and against the dangerous drift toward national economic isolation.

Our decision to make the rule of equal treatment—that is to say, the unconditional most-favored-nation principle in its broad application—the cornerstone of our program was dictated, first of all, by an immediate and practical consideration: in the absence of guarantees of nondiscriminatory treatment, our export trade cannot escape being constantly exposed to unpredictable dangers. But our decision was also dictated by the conviction, derived from the study of universal experience in the field of international commercial relations, that trade among nations can develop and prosper only as all nations can be assured fair dealing and equality of commercial treatment.

Apart from the purely economic aspects of the trade-agreements program, there is another and even more profound reason for the emphasis which we have been placing upon the need for restoring international commerce upon a sound and healthy basis. Many of our citizens must wonder why, being concerned with the conduct of our country's foreign relations, it is necessary for me to devote so much of my time, thought, and effort to economic problems and to questions of foreign trade. It is because I know that without economic security and well-being there can be no social or political stability in national life, and that without economic, social, and political stability and security within nations there can be no peaceful and orderly relations among nations. It is because I know that without expansion of international trade, based upon fair dealing and equal treatment for all, there can be no stability



and security either within or among nations. It is because I know that the withdrawal by a nation from orderly trade relations with the rest of the world inevitably leads to regimentation of all phases of national life, to the suppression of human rights, and all too frequently to preparations for war and a provocative attitude toward other nations.

Two opposing tendencies continue to influence the course of international economic relations. One is the effort which we and many other countries are making toward placing such relations upon a sound and constructive basis and thus enabling trade to make its fullest possible contribution to the economic well-being, stability, and peace of all countries. The other is the continuation of policies under which trade—and, therefore, economic welfare—are being sacrificed to such other objectives as vast armaments and the supremacy of force.

In the presence of a persistent operation of this second tendency, it is not difficult to fall prey to despair. It is not difficult to come to the plausible but erroneous belief that, as a result of this tendency, the course of world development must be toward maximum self-sufficiency for each and every country; that trade among nations is doomed to extinction or at best to a precarious existence subject to the arbitrary whim of control authorities; that the principles upon which we have founded our commercial policy have been rendered antiquated and ill-adapted by the apparent implications of the developments which are occurring elsewhere in the world; and that, therefore, no other course of action is open to us than to fall back upon a system of ever-increasing economic isolation.

As I see the world picture, there is no justification in fact for such counsel of despair. The world *is* at a crossroads. *But its power of choice is not lost.*

One of the roads that wind into the future is that of increased reliance upon armed force as an instrument of national policy. So long as the construction of armaments for such a purpose continues to be the center of national effort in some countries, a policy of arming inescapably becomes a universal evil. Other nations find themselves compelled to divert to preparation for self-defense an increasing part of their substance and effort. All this requires—in varying degrees, but in all countries alike—ever greater sacrifice of what mankind universally has regarded as the central objective of civilization and progress—namely, a rising level of national welfare and of the well-being of the individual. All this imposes—again in varying degrees, but in all countries alike—a growth of autarchy, an ever more complete regimentation of national life, an impairment of personal liberty, a lowering of every standard of material, cultural, and spiritual existence. If the nations continue along this road, increasingly strewn with the wreckage of civilized man's most precious possessions, they will be marching toward the final catastrophe of a new world war, the horror and destructiveness of which pass human imagination.

The other of the two roads is that of ever-increasing reliance upon peaceful processes and upon the rule of law and order in the conduct of relations among individuals and among nations. As such reliance becomes more effective, the vast productive forces with which nature, science, and technical skill have endowed mankind, can become released, in greater and greater measure, for the advancement of the human race. As trust in the pledged word and order under law replace the doctrine of armed force and the practice of lawlessness, the human mind can turn once more to the arts of peace, and the human soul can soar once more to ever greater achievements of the spirit.

We in this country are fortunate beyond measure in that we are less immediately af-

fectured than are most other nations by the tensions which prevail in other parts of the world. Yet even for us there will be no escape from a dismal outlook if unhappily the rest of the world should choose the road that must lead to another major armed conflict.

Things being as they are, it is undoubtedly our duty to ourselves to render adequate the armed forces needed for our own security and defense. But it is equally our duty to ourselves not to relax by one whit our efforts to exert our maximum influence toward helping mankind to choose the road of peace and justice rather than the road of war.

In no field is effort toward accomplishing this crucial purpose more essential than in that of restoring economic strength, political stability, and social security within nations through a promotion of healthy economic relations among nations. The task is neither easy nor simple. Political antagonisms, national ambitions, the vast armament programs, and many other phases of narrow nationalism present powerful obstacles. But all these obstacles, enormous as they are, will be more readily overcome if there is constantly kept alive the concept of a future for mankind happier than that of an inexorable drift toward economic impoverishment and a military explosion, and if tireless efforts are made to bring about the realization of such a future.

It is my considered judgment that nothing that has occurred in recent years or in recent weeks has served to discredit in any way the principles on the basis of which we are seeking to bring about a restoration of sound economic conditions as a necessary foundation of durable peace. Nothing that has occurred has impaired my profound belief that these principles will sooner or later become firmly established as the foundation of international commercial relations. The world's need for the translation of these principles, as well as of all other basic principles of peaceful relations among nations,

into practical realities is more urgent and more pressing today than it has ever been.

Nor is the present outlook in this respect devoid of hope. In spite of plausible indications and pseudo-logical inferences to the contrary, the drift toward complete national self-sufficiency is far from making ready headway in the world as a whole. While excessive barriers to trade continue to weigh heavily upon international commerce, the major part of world trade is still carried on by countries which are not attempting to be self-contained regardless of cost.

Only a few countries proclaim the attainment of autarchy as their avowed purpose. But these very countries are, at the same time, making desperate efforts to enlarge the volume of their foreign commerce—not only within the limited areas actually or potentially under their immediate influence, but with other parts of the world as well. The striking paradox of the present situation is that in their attempts to find foreign markets and sources of materials indispensable to their national existence, such countries employ methods of forced and artificial stimulation, which inescapably prevent trade from making its full contribution even to their own well-being and economic stability.

As experience accumulates, it becomes increasingly clear that trade methods of this type steadily exhaust the countries which practice them and arouse ever more intense resistance and retaliation on the part of other countries. Whether employed in conjunction with openly proclaimed programs of national or group autarchy or in the absence of avowed desire for self-containment, such methods of trade inevitably defeat themselves. They are, in a full sense, the instruments of destructive economic warfare, adopted by nations in the mistaken belief that they are capable of enhancing national security and strength.

Autarchy and other forms of economic armament create but an illusion of strength and se-



curity. They uproot far more than they build. They discourage rather than generate enterprise. By placing impassable barriers to the world flow of material and financial resources, by tending to split up the world into abnormally limited areas of trade relations, they undermine confidence and stability. They make all nations progressively weaker.

The very difficulties which constantly multiply in the application of such policies and methods create powerful pressures in the direction of their abandonment. No nation can prosper or maintain other than a visibly falling standard of living for its population when the world is broken up into air-tight economic compartments.

The program which we advocate offers the only practicable alternative to a drift toward the anarchy of economic warfare, with all its disastrous consequences for the peace and progress of man. Its workability has been demonstrated beyond a shadow of doubt. It can be embraced by all nations alike, without exception, and to the benefit of each and all.

Not by compromising with any of our basic principles, not by joining a retreat to self-imposed poverty of economic isolation, not by attempting to employ the destructive practices of forced trade, can we make our contribution toward rendering brighter and more hopeful the outlook for ourselves and for the world.

Our own best interests and the concern which all of us must feel for the future of the human race imperatively require that, far from abandoning our trade-agreements program, we put redoubled vigor into our efforts to enlarge its scope and its effectiveness. We should not relax, we should intensify our endeavors to influence all nations, by example and by every appropriate means of persuasion open to us, to return to the tested basis of healthy and sound trade, of monetary stability, of financial order and probity—in brief, to that type of international economic relationships which have been

incontrovertibly shown by experience to be the only possible foundation of peace, progress, and well-being among mankind.

No nation and no individual can escape a share of responsibility for the fashioning of mankind's choice as to the road which the world will follow. There is nothing more desperately needed today in all countries than clear thinking and a profound sense of national and individual concern for the course of future developments.





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# The Reciprocal- Trade-Agreements Program of the United States

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## The Reciprocal- Trade-Agreements Program of the United States

THE reciprocal-trade-agreements program is based upon the Trade Agreements Act approved June 12, 1934, and extended for another 3 years by a joint resolution approved March 1, 1937.

### WHY IT WAS ADOPTED

*Purpose.*—To increase foreign markets for products of the United States is the primary purpose of the trade-agreements program. This purpose is sought through the reciprocal adjustment of excessive trade barriers.

*Necessity.*—Normally the United States can and does produce more of a great number of farm and nonfarm products than the American public can use. Surpluses of such production must either (1) be sold in other countries, (2) pile up in unmarketable carry-overs in this country, or (3) be sold by producers at ruinously low prices. Unless exported, such surpluses force down prices, employment, and income of American producers.

Trade between nations declined sharply after 1929, largely because most nations, including the United States, set up excessive barriers to imports from other countries. Since they made it impossible for their people to buy things they needed and desired from other countries, they made it impossible for their own producers to sell their exportable surpluses in other countries.

As world trade diminished, unemployment and low incomes followed and brought worldwide economic depression. Between 1929 and 1932 United States foreign trade dropped 69

percent, national income 50 percent, and gross farm income 55 percent.

*Benefits of Foreign Trade.*—Sound expansion of United States trade with foreign countries—

1. Directly benefits American producers whose goods are exported.

2. Improves domestic markets. Any American producer, farmer or nonfarmer, whose goods find a foreign market becomes a better customer for the goods of other American producers.

3. Increases the supplies available to American consumers at reasonable prices, of goods produced to better advantage in other countries or not produced at all in the United States.

Foreign trade is, necessarily, two-way trade. This country cannot have the benefit of export trade unless we import (the only way in which foreign countries can get the wherewithal to pay for American exports) or lend foreigners money with which to buy our products. We cannot have the benefits of imports unless we pay foreigners with exports or gold, or borrow from them.

### HOW THE PROGRAM WORKS

Removing or reducing excessive barriers to foreign trade, through direct and separate negotiations with other countries, is the method which the Trade Agreements Act authorizes for enlarging foreign trade. This method was chosen as more practicable and effective than narrow barter deals or general downward revision of the United States tariff alone. The latter method would leave the United States nothing with which to bargain for concessions from other countries.

*Method.*—Specifically, the act empowers the President, in order to obtain concessions from other countries on American products, to modify excessive United States tariff rates on specific

foreign products, or to "bind" tariff rates or free entry during the life of a trade agreement.

The act does *not* empower the President to modify tariff rates except under a trade agreement; it does *not* empower him to reduce the duty on any foreign product under trade agreements by more than 50 percent or to transfer any item from the dutiable list to the free list.

It *does* require trade agreements to be concluded only after consultation by the President with the Departments of State, Agriculture, and Commerce, and with the Tariff Commission, and only after full public notice and opportunities for presentation of information and views by anyone interested in proposed agreements.

All Government agencies concerned with foreign commerce cooperate in studying all pertinent facts and views before any trade agreement is concluded. The coordination of the trade-agreements activities of the various Departments and agencies is centered in the Department of State.

*Concessions Obtained.*—The United States, in negotiating a trade agreement, asks a foreign country to lower excessive tariff rates on our export products or to modify or remove quotas or exchange restrictions on American products.

Such concessions have been obtained from important foreign customers of the United States with regard to hundreds of American products, both agricultural and nonagricultural.

*Concessions Granted.*—Under trade agreements, the United States has agreed to tariff reductions or "binding" on certain manufactured and agricultural specialties of interest to the foreign countries concerned, on raw materials for American industry, and on certain agricultural commodities, chiefly those not produced in the United States. Concessions on imports of commodities which are produced in the United States are granted by this country only after particularly exhaustive study has shown that they will benefit the whole national

economy and will not result in material injury to any group of American producers. In some cases tariff modifications on such products are limited by quotas on the volume of imports under reduced tariff rates or by restriction of tariff reductions to seasons when competing American products are not being marketed.

*"Most-Favored-Nation" Clause.*—The traditional trade policy of the United States is not to discriminate between foreign nations, but to extend equality of treatment to all who do not discriminate against the trade of this country. This policy is embodied in the Trade Agreements Act. Under it a concession on a given product in a trade agreement with a foreign nation (other than Cuba) applies also to the same product from any third nation, unless that third nation is found to discriminate against the products of the United States. The same treatment for United States products is naturally required of the other party to the trade agreement.

This policy of fair treatment on a reciprocal basis pays large dividends in dollars and cents to American exporters of agricultural and factory products whom it protects against tariff and other discriminations. It also avoids international ill feeling and thus promotes peaceful commercial relations.

#### WHAT THE PROGRAM HAS ACCOMPLISHED

Under the Trade Agreements Act the United States has concluded agreements with 19 foreign countries. These countries, in the order in which the agreements were signed, are: Cuba, Belgium, Haiti, Sweden, Brazil, Canada, the Netherlands, Switzerland, Honduras, Colombia, France and colonies, Guatemala, Nicaragua, Finland, El Salvador, Costa Rica, Czechoslovakia, Ecuador, and the United Kingdom including Newfoundland and the British Colonial Empire. The agreement with the United Kingdom, signed November 17, 1938, will enter into



force January 1, 1939. A second agreement with Canada, signed on the same date, will also enter into effect January 1, 1939, replacing the first agreement with Canada, which has been in effect since January 1, 1936. Negotiations are now under way with two additional countries, Turkey and Venezuela.

About 60 percent of the foreign trade of the United States is carried on with these 21 countries. The United Kingdom and Canada are, respectively, the largest and the second largest customers for American farm and nonfarm products.

*Trade Increases.*—In 1936 trade agreements with 14 countries were in effect all or part of the year, and total exports from the United States to those countries were 15 percent higher than in 1935, whereas exports to non-trade-agreement countries were only 4 percent higher. In 1937 there were 16 agreements in effect, and exports to trade-agreement countries were 60 percent higher than exports to the same countries in 1935, whereas exports to non-trade-agreement countries were 39 percent greater.

Exports of agricultural products from the United States to the 16 trade-agreement countries were 42 percent greater in 1937 than in 1935, while such exports to all other countries were 4 percent smaller.

Many factors in addition to the trade agreements, especially drought and the rate of industrial activity in the United States, played important parts in these changes in United States foreign trade.

*A Force for Peace.*—Economic insecurity and depression are major causes of internal disorders and of international friction and economic warfare that sometimes develop into military warfare.

Such insecurity and depression are frequently caused by excessive trade obstacles that prevent citizens of one country from exchanging products with the citizens of other countries.

Removing excessive trade barriers, and thus permitting a greater exchange of goods to contribute to economic prosperity and security, is clearly a means of avoiding some of the deep-rooted causes of military warfare.

The trade-agreements program of the United States—by leading the way toward economic disarmament—is helping to create a basic situation more favorable to peaceful relations between nations.



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# The Dependence of Cotton Upon Sound Foreign-Trade Policies

*Address by*

FRANCIS B. SAYRE

*Assistant Secretary of State*

*before the*

COTTON CONFERENCE OF THE  
AMERICAN FARM BUREAU FEDERATION

New Orleans, La., December 12, 1938



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# The Dependence of Cotton Upon Sound Foreign-Trade Policies

*Address by Assistant Secretary Sayre*

IT IS a genuine pleasure for me to have the chance of participating in this Cotton Conference of the American Farm Bureau Federation. The problem of cotton is essentially a national problem. It is not merely that the manufacturing centers of the country are vitally dependent for many of their markets upon the prosperity of the cotton-growing States. The agricultural regions of the North and West are equally concerned. Some 58 percent of the total farm population of the United States today live in the 16 cotton States. In these circumstances, consider what a permanent curtailment of market outlets for cotton would mean. A substantial part of this vast population in the cotton States would be compelled either to take up the production of other crops or else to migrate to the cities and thus further swell the vast reservoir of labor supply already available in our industrial centers. If the South is compelled, on a rapidly increasing scale, to turn to the commercial production of dairy and livestock products and feed crops, the effects of this new competition will inevitably be felt keenly throughout the other farming regions.

So you see that this problem of cotton is not merely a regional problem. It is a national problem—of vital concern to industry, to agriculture, to labor, and to business generally, throughout the entire country.

## I

Less than a month ago, in the East Room of the White House, in the presence of a distinguished company, were signed two documents which promise to be of historic impor-



tance—a trade agreement between the United States and Great Britain, and a second agreement between the United States and Canada. The agreement with the United Kingdom covers trade not only with that country, but also with Newfoundland and a large and important group of British colonies. The exports and imports of the areas which are included in these two agreements account for over a third of the total international trade of the world. The agreements mark an important and impressive advance in the program of our Government to meet both international and domestic problems through the liberalization of international trade.

The United Kingdom is our largest customer. She buys more goods from us than does any other country. But with rising trade barriers our sales in British markets have suffered disastrously. In 1929 we sold some 848 million dollars' worth of our products to the United Kingdom; in 1937, although we were selling considerably more than during the low point of the depression, we sold only 535 million dollars' worth—over 300 million dollars less than what we sold in 1929.

American farmers have a particularly vital stake in English markets, for England needs cotton and must have more foodstuffs than she can herself produce. Approximately a third of our total agricultural exports are sold in the United Kingdom. Our sales of farm products to British buyers in 1929 amounted to some 445 million dollars; in 1937 they were only 261 million dollars. You see the potentialities of such a rich and extensive market. Every time new opportunities for economic activity are opened up through increased export outlets to American farmers and workers engaged in producing, handling, transporting, and servicing the new exports, it means new blood coursing through our economic organism.

After the United Kingdom, Canada buys more goods from the United States than any

other country. She is, in other words, our second largest customer. In 1937 she bought 510 million dollars' worth of our exports, and we bought almost 400 million dollars' worth of Canada's exports. Very naturally our great next-door neighbor needs and wants innumerable United States products, just as we need and want innumerable Canadian products.

Taken together, the concessions embodied in the agreements with the United Kingdom and Canada cover more than 3,000 tariff items. Our total exports to and imports from the areas concerned amounted in 1937 to \$2,025,-322,000. Of this total, 68 percent, or \$1,377,-422,000 worth of trade, is covered by the concessions given and received in the agreements.

What is of particular interest is that just as the United Kingdom wants to buy those of our goods which are primarily agricultural, so Canada wants to buy those of our goods which are primarily industrial. By these two agreements *both* the American farmer and the American millworker reap profit through the gain of foreign markets; and the opportunity thus given to each for increased economic activity naturally reacts to the enormous benefit of the other in increased purchasing power and hence in increased domestic markets.

The significance of these two agreements, however, does not lie merely in their opening the way to increased trade and increased profit on both sides. Their crucial importance lies in their influence upon the commercial policies of the greatest trading nations of the world. For the United States these agreements mark a long additional step in that liberalization of trade which began with the Trade Agreements Act of 1934. For the United Kingdom they are even more significant. Great Britain, which, ever since the repeal of the corn laws in 1846 and the signing of the Cobden Treaty with France in 1860, had been a free-trade bulwark, in 1932 turned to protectionism and inaugurated a sweeping increase in her tariff

structure, following the American Hawley-Smoot tariff of 1930. In 1932 the Ottawa agreements were signed creating imperial preferences between the United Kingdom and her dominions and colonies.

The new agreements represent a conspicuous departure from that policy. Both the United Kingdom and Canada in these agreements have notably modified their policies of protection and preference, and have joined with the United States in a policy of trade liberalization.

## II

The signing of these two agreements was of large significance to American agriculture, including American cotton growers. In spite of these agreements, however, there has been a tendency of late to look at the cotton problem through very dark spectacles.

Over half of the American cotton crop, as all cotton men know, is customarily sold in foreign markets. But what with the disastrous shrinkage of international trade following the crash of 1929, with the introduction of new, restrictive devices, such as exchange control and export- and import-licensing requirements, with increasing practices of barter trade and subsidizing of exports, foreign markets are growing more and more precarious. Since the Munich agreement of last September some are suggesting that the American cotton grower must accept as permanent the loss of foreign markets.

Defeatism never accomplishes anything. It is the way to disaster. It is not the American way.

I do not believe in an optimism that is blind to realities. But neither do I believe in a pessimism that is blind to realities. What are the actual facts which we face?

By far the greater part of world trade today is carried on by countries which do not pursue policies of bilateralistic balancing and trade

discrimination, but which adhere rather to policies of equality of treatment and unregimented trade. That is the policy written into our own Trade Agreements Act, and it underlies our whole trade-agreements program. Three-fifths of our total foreign trade is now with countries bound by our trade agreements. Only one country—Germany—because of her discriminations against us, falls outside of the circle and the influence of our trade agreements. And German trade constitutes less than a tenth of the trade of the world.

Of more fundamental importance is the fact that regimented and illiberal trade methods are ultimately self-defeating in the sense that they are bound to reduce and restrict the trade upon which the nation's economic health inescapably depends. Like a harmful drug they temporarily stimulate activity and postpone suffering; but they make the ultimate injury and suffering all the more sure.

The majority of illiberal trade practices were not adopted because of any belief in their superiority. Barter is primitive at best; it is a reversion to the method of savagery, resorted to when more intelligent and productive methods break down. Bilateralistic trading is another practice which tragically restricts the freedom of trade and hence ultimately increases the cost of goods; it usually results in cutting the trade between two countries down to the level of the nation which buys the less. Blocked currencies are the mark of the nation which cannot buy and sell in the open market where goods can be had at lowest price—the nation which is hampered and restricted in its activities by impaired credit. Export subsidies may temporarily increase exports, but in the last analysis they constitute a giving away of the nation's assets at less than cost. Trade practices such as these are the direct result of currency shortages, of impaired credit, of waning assets. They lead to economic deterioration, and, if persisted in, to ultimate defeat.

Because of recent international developments, then, we need not fold up our tents. Those who with us would follow the more liberal and constructive commercial policies based upon equality of treatment and freedom from political and uneconomic restraints control by far the larger part of the world's trade. Contrary practices are ultimately self-defeating. If we are sufficiently intelligent to adhere to our liberal policies and to avoid being drawn into contrary practices for the sake of temporary or partisan gains, all the cards are on our side. We can win and hold strong foreign markets if only we keep true to our principles.

The effective reply to the defeatism which appeared in some quarters after the Munich settlement is the Anglo-American trade agreement.

### III

The future of cotton and the future of the South depend upon maintaining foreign markets in which to sell our surplus cotton.

The South cannot be content with mere temporary expedients. Government purchases of unsalable surpluses or Government loans on cotton may at times be necessary as a means of temporary relief; but such expedients offer no permanent program upon which the South can afford to build its future.

Restriction of production may at times be necessary when cotton surpluses reach unmanageable proportions and when sufficient domestic and foreign markets for the disposal of these surpluses have not yet been built up; but in the last analysis crop restriction means economic retrogression and lessening of national income. As a permanent measure surely it is not the way forward.

The South cannot rest content with any permanent program short of strengthening and building up markets for cotton at home and abroad.



What is the most practical way in which this can be done?

As a long-range program there is no more practical way than by reducing and eliminating the barriers and obstacles which today are hindering and diverting into uneconomic channels the flow of international trade. Once nations are free to buy and sell in the most advantageous markets, wheels of industry and production which have long stood idle begin to turn again, each nation's economic organism begins to thrill with new life, and purchasing power with renewed economic activity will again be built up to a point where nations will be able to buy the cotton and other American products which they want and need. This is the American trade-agreements program. And surely for the South this is the way forward if it is to maintain its economic strength and health.

I do not mean to suggest that the trade-agreements program furnishes any guarantee of the complete solution of the problem of cotton surpluses. Without a positive knowledge of what future conditions will be, it would be rash indeed to assert any such claim. The program does serve, however, to alleviate the pressure of farm surpluses and to enable farmers to grow and to sell at a profitable price more than would otherwise be possible. It offers firm foundations upon which sound progress can be built.

The world could easily double its cotton consumption, for cotton supplies a fundamental human want. The trouble is that men lack the wherewithal, the purchasing power, with which to buy it. Cotton consumption does not remain static. It rises and falls with available purchasing power. It rises when trade is brisk and the wheels of industry are turning and purchasing power is high. It falls when impassable barriers and uneconomic restrictions block trade and the wheels of industry slow

down and purchasing power is low. Cotton consumption varies with general industrial activity. Between 1934 and 1936 the world mill consumption of cotton increased by some 5 million bales. I do not mean to infer that every increase of world consumption increases necessarily the sale of American cotton. But at least to the extent of the increase it relieves the downward pressure upon world cotton prices.

In four practical ways the trade-agreements program benefits the cotton farmer. In the first place it stimulates foreign purchasing power. In truth, the real reason for shrinking export markets for American cotton is not trade barriers erected to exclude it but loss of foreign purchasing power with which to buy it. European nations today need and badly want more American cotton. But they do not possess, and because of our excessive tariffs they cannot obtain by the sale of their goods to the United States, sufficient dollar exchange to pay for what they want. The trade-agreements program is a practical way of building up our own and foreign purchasing power. When we reduce in trade agreements excessive tariff duties and thus enable foreign countries to sell us more of their products, we increase their purchasing power for our exports.

Moreover, it is well to remember that, while there are few tariff duties on cotton, there are nevertheless other forms of international trade control which result in severe shrinkage of markets for American cotton. In a number of countries today exchange-control provisions and other trade restrictions resulting from economic nationalism have resulted in greatly reduced consumption of American cotton. Whatever makes against economic nationalism and for international trade aids the American cotton farmer. And this is the very fight which we are making in our trade-agreements program. The program means increased foreign markets for American surpluses.

In the second place, the program is of very practical benefit to the cotton farmer through building up increased domestic markets and increased domestic purchasing power. If, for instance, we can sell abroad more automobiles, automobile factory workers in the United States can and will buy more cotton goods than they otherwise could. Moreover, automobile factories will be buying iron and other raw materials from every section of the country; and this in turn will mean increased pay rolls and increased purchasing power in every place from which they buy. Workmen in these places will in turn buy goods coming from still other sections of the country. Each sale of surplus products abroad creates a chain of economic transactions within the country, the total effect of which is to increase purchasing power beyond the volume represented by the original sale; and increased purchasing power is what makes prosperity. Trade increases employment, creates profits, and raises the general level of well-being. Increased exports build up greatly increased domestic markets.

In the third place, the trade-agreements program offers to the cotton and other farmers a practical means for increasing what economists call their "*real* income," that is, the amount of goods which their income will buy. The farmer's real income may be increased either through his receiving more dollars with which to buy the goods he wants or through a reduction in the cost of the goods he wants. In either way he gets more goods. Through reducing the costs of the things he needs by reducing the excessive and economically unjustifiable tariff rates of the Hawley-Smoot tariff in such a way as to avoid injury to domestic producers, the real income of the farmers of the country can be increased without injury to other groups; and this is being done with every new trade agreement that is made.

How deeply the farm groups were hurt, in the opinion of Secretary Wallace, by the Hawley-Smoot tariff is best described in his own words:

"That bill," he said, "proved to be the most outrageous instance of selling agriculture down the river to the traditional beneficiaries of tariff privilege. Once again, as in 1922, agriculture had been traded out of its shirt in a game of logrolling. . . . Monopolists and others already well fortified by tariff advantages established themselves even more impregnably within the citadel of protection."

By means of the trade-agreements program many of the excesses and unjustifiable extremes of the Hawley-Smoot Tariff Act, which have been working to the deep injury of our farm groups and indeed of the Nation as a whole, have gradually been smoothed away and adjusted to the benefit of all.

Finally, even in the form of direct tariff reductions or quota enlargements for cotton products or of guarantees against less favorable treatment for raw cotton, the trade-agreements program is in its cumulative progress benefiting cotton farmers. In the new agreement with the United Kingdom, which ordinarily ranks first or second as a market for our raw cotton and for cotton linters, the present favorable tariff treatment of raw cotton was bound against change during the life of the agreement. American cotton growers are assured, therefore, that their product will continue free of duty and on an equal footing with all other growths. The present duty-free status of cotton linters (unbleached) and cotton waste likewise is bound. Besides the United Kingdom and Canada, five other countries, Cuba, Sweden, the Netherlands, Switzerland, and Finland, have guaranteed to continue the present favorable treatment accorded imports of American raw cotton. Czechoslovakia has accorded us duty-free entry on cleaned cotton linters, if unpressed, similar to the treatment already ac-



corded on uncleaned linters, and has reduced by half the duty on pressed, cleaned linters. In addition, many concessions have been obtained for products in the manufacture of which cotton is utilized. For example, in 10 agreements concessions have been obtained on cotton yarns, textiles, and advanced manufactures, including such products as threads, cotton cloth, duck, tire fabric, hosiery, gloves, knit underwear, collars, cuffs, men's shirts, women's clothing, towel-  
 eling, ribbons, blankets, and surgical gauzes. Similarly, the concessions obtained on automobile tires from all but 2 of the 19 countries with which we have agreements are also of advantage to the cotton farmer in view of the fact that approximately 10 percent of the total annual cotton consumption of the United States goes into tires.

Thus, to the cotton farmer the trade-agreements program points the way to economic salvation. As the program goes forward increased foreign purchasing power is gradually built up, increased domestic markets are gained, increased real income is secured for the cotton farmer as a consumer, and lowered trade barriers are acquired for numerous cotton products and manufactures. To the cotton farmer increased international trade is a matter of life and death.

#### IV

Two further questions remain. What account should be taken of tendencies toward economic self-containment and the consequent opening up of new foreign areas for cotton production? Also what of the present rapid technological developments and the supplanting of cotton by other fibers or substitutes?

Undoubtedly shifting economic and social forces throughout the world and technological advances have created special problems for cotton growers, as for many other producers, both agricultural and industrial. In any dynamic society, changes are constantly taking



place. There can be no progress without change. This surely affords to cotton growers no reason for despair.

As long as human beings inhabit the world they will want cheap food and cheap clothing from whatever parts of the world they can be had; and although governments may restrain and even for the time cut off their access to these, they can never be permanently barred from them. Cotton is a fundamental staple which men and women will always want.

No nation can be or can ever become 100 percent economically self-sufficient. The cost is too great. A nation can cut down on its foreign purchases by more expensive home production or by the use of synthetic substitutes, but only at a mounting cost. The financial is the least part of the cost. Economic self-sufficiency can be bought only by the sacrifice of individual freedom, by a thoroughgoing regimentation of industry and business, by forcing slowly but inevitably downwards the national standard of living. In the actuality of life, autarchy is an exceedingly costly policy and there are natural limits beyond which it cannot be pushed. No enlightened nation can be assumed to have as an objective the lowering of the living standards of its population. Few countries of the world today follow, much less advocate, such a system. The recent trade agreements with the United Kingdom and Canada point the way to a reversal throughout the greater part of the world of the trend toward national economic self-containment.

True enough, new cotton-producing areas may be developed in other countries, as in Ethiopia or China. But this is an eventuality which may take years in fulfillment or may never come to pass. Even if it takes place, it gives no justification for a policy of defeatism. In the long view the cotton consumption of the world is without limit. Increased production can eventually be met by building up increased purchasing power.

One thing is evident. The greater the tendency throughout the world toward self-containment and toward the development of new cotton-producing areas, the greater the need for a program for the liberalization of world trade and for building up foreign markets. Whatever the danger to southern cotton farmers from increasing economic nationalism, the trade-agreements program offers the soundest corrective.

As to the danger that cotton will be displaced by other natural or synthetic fibers, although I am not competent to discuss the scientific possibilities of technological advance, here again I can see no reason for defeatism. Every advance of science and technology, like every social and political advance, requires new adjustments and economic realignments; and none of us would wish to arrest this advance even if we could.

Why cannot the South adapt itself to changes and new alignments? I have profound faith in American ingenuity and the power to adapt our life to changing conditions. I have profound faith in the new South. The old South, fettered and shackled by the outlived economic system of slavery, the post-bellum South, impoverished and bled white by a disastrous war between the States, is, thank God, a thing of the past. In its place is a new South, once more pulsing with economic life, alert, resourceful, progressive.

If technological advance touches the South, why cannot she herself, as do other parts of the country, profit from such advance? If more profitable cotton substitutes are developed why cannot the South, alert to maintain its position in the economic life of the Nation, share in the production of these more profitable substitutes?

The very possibilities or dangers of cotton being displaced through technological advance by other fibers or substitutes emphasizes the importance to the cotton grower of pushing forward the trade-agreements program.

Whether from the viewpoint of building up foreign purchasing power and foreign markets or of developing increased domestic markets, whether to secure an increased "real income" or to gain specific trade concessions for raw cotton or cotton products, whether to counteract the effects of the movement toward autarchy or the movement toward technological substitutes, the Trade Agreements Act is the most fundamentally constructive program which has been offered to the southern cotton grower in all our history.

## V

In closing may I add one further thought? No country can be prosperous, no section of the country, South, North, East, or West, can have stable prosperity, unless we have peace. Whatever makes for peace makes for American welfare. The international crisis of last September must bring home to all of us the compelling importance of building sound foundations for permanent peace. Military demobilization, even military disarmament, alone cannot bring lasting peace. Lasting peace depends upon economic as well as military disarmament. Until the scourge of economic nationalism, which has forced trade barriers to extreme heights throughout the world, can be overcome through patient and careful effort to liberalize world trade, economic struggle will continue, accompanied by political suspicion and hostility.

Recent European events, far from overshadowing the necessity of building firm economic foundations for peace, demonstrate the need for redoubled efforts in that direction. Lovers of peace, lovers of American freedom must unite in support of the trade-agreements program. It is a program for promoting domestic prosperity. It is also a program working powerfully for peace.

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# America's Trade Program Moves Ahead

By

FRANCIS B. SAYRE

*Assistant Secretary of State*



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# America's Trade Program Moves Ahead

*By Francis B. Sayre*

THE YEAR 1938 witnessed two important and significant steps in the progress of the American trade program. One was the signing last November of a trade agreement with the United Kingdom and a second agreement with Canada, both of which went into effect on January 1. The other was the action taken in the closing days of the year by representatives of the American republics gathered at Lima.

On December 16 the Lima Conference unanimously approved a resolution endorsing "the negotiation of trade agreements, embodying the principle of equality of treatment, as the most beneficial and effective method of extending and facilitating international trade." It was a strong and positive endorsement, carried without a dissenting vote, of the liberal and nondiscriminatory policy of Cordell Hull as against the contrary policy of forcing world trade into arbitrary and uneconomic channels through various restrictive devices, such as barter, clearing and compensation agreements, exclusive preferences, and discriminations.

## I

There has recently been a tendency in some quarters to look at foreign trade through very dark spectacles. Particularly after the signing of the Munich agreement last September, some felt that we must accept as permanent the loss of foreign markets and the increasing regimentation of international trade.

Defeatism never accomplishes anything. It is the way to disaster. It is not the American way.



As a matter of fact, by far the greater part of world trade today is carried on by countries whose policies are not based on bilateralistic balancing and trade discrimination, but rather on equality of treatment and unregimented trade.

Sound foreign commercial policy should be based upon fundamental facts which do not change with the shifting scenes of international drama. It is elementary that modern civilization and human progress depend inescapably upon international trade. Since the Industrial Revolution nations have come to depend more and more upon imported foodstuffs to feed increased populations, and raw materials to feed their factories; they have become equally dependent upon foreign markets in which to sell their products. Were international trade denied them, modern industrial nations could not possibly maintain existing standards of living or keep their populations fed or employed.

Through trade, nations secure the raw materials which they need for their industrial life; through trade they are able to dispose of their surplus products. Through trade come culture and the spread of emancipating ideas; through trade the advance of modern civilization is made possible. Strike at international trade and you strike at the very heart of civilization and human welfare.

As long as some countries can provide food or clothing or raw materials necessary for civilized life which other countries cannot provide as cheaply, or cannot produce at all, men will want to trade; and since human beings will not permanently permit their standard of living to be forced down to the level necessitated by a curtailment of all international trade, no possible turn of international events or temporary dominance of any particular philosophy can end international trade.

But trade can be lessened and impeded; it can be made more difficult. Every time it is so restricted it tends to depress national living standards and retard civilization's advance.

Nations which are wise will adopt commercial policies which foster and promote international trade, and thus further human welfare. Policies which hamper and restrict the flow of international trade are bound to work to the nation's own economic injury and in time to be themselves overthrown.

Here lies the elemental strength of the American trade-agreements program. Its two fundamental objectives are, first, to reduce and eliminate the barriers and impediments which are tending to strangle international trade; and, second, to eliminate trade discriminations which today are tending to divert trade into uneconomic and less profitable channels and which are robbing international traders of the stability and certainty necessary to carry on their business.

Everyone agrees that such policies and trade practices as lead to restricted trade are unsound. Regimented and illiberal trade methods are ultimately self-defeating in the sense that they are bound to reduce and restrict the trade upon which the nation's economic health inescapably depends.

The majority of illiberal trade practices were not adopted because of any belief in their superiority. Barter is clumsy at best; it is a reversion to the primitive, resorted to when more intelligent and productive methods break down. Bilateralistic trading is another practice which tragically restricts the freedom of trade and hence ultimately increases the cost of goods; it usually results in cutting the trade between two countries down to the level of the nation which buys the less.

Blocked currencies are resorted to by nations which cannot buy and sell in the open market where goods can be had at lowest price—nations which are hampered and restricted in their activities by impaired credit and currency systems. Export subsidies may temporarily increase exports, but in the last analysis they constitute a giving away of the nation's assets

at less than cost. Trade practices such as these are the direct result of foreign exchange shortages, of impaired credit, of waning assets. They lead to economic deterioration, and, if persisted in, to ultimate defeat.

There can be no disagreement as to these basic principles. Certain nations, caught in the swirling eddies of economic whirlpools, have been drawn down the current of unsound trade practices, not always as a matter of choice. Because of the political importance of these countries, such unsound trade practices are much in evidence. But they are generally recognized as profoundly unsatisfactory even by those nations which have been drawn into them, and the great majority of the trade of the world is free from them.

Because of recent international developments we need not fold up our tents. Those nations who, with us, would follow the more liberal and constructive commercial policies, based upon equality of treatment and freedom from excessive and unreasonable restraints, control by far the larger part of the world's trade. Contrary practices are ultimately self-defeating. Only if we surrender, through a policy of defeatism or through inertia, can such practices come to dominate the world. Neither barter trade nor clearing systems, nor preferential and discriminatory practices, nor bilateral balancing can be forced upon a preponderant portion of the world's trade by a minority, no matter how great the political power of the minority.

If we are sufficiently resolute and intelligent to adhere to our liberal policies and to avoid being drawn into contrary practices for the sake of temporary or partisan gains, all the cards are on our side. We can win and hold strong foreign markets if only we keep true to our principles.

The effective reply to the defeatist attitude regarding our foreign trade, which appeared in some quarters after the Munich settlement, is

the Anglo-American trade agreement. Wherein lies the real importance of this agreement? Is it more than a well-timed gesture of solidarity between two great democracies? From a purely economic viewpoint, how important will be the commercial results of this agreement and what with Canada, signed at the White House on the afternoon of November 17?

## II

Our commerce with the United Kingdom and its colonies and with Canada constitutes, roughly, about a third of our total foreign trade. The United Kingdom is our largest customer. She buys more goods from us than does any other country. But with rising trade barriers our sales in British markets have suffered disastrously. In 1929 we sold some 848 million dollars' worth of our products to the United Kingdom; in 1937, although we were selling considerably more than during the low point of the depression, we sold only 535 million dollars' worth—over 300 million dollars less than what we sold in 1929.

American farmers have a particularly vital stake in English markets, for England needs cotton and must have more foodstuffs than she can herself produce. Approximately a third of our total agricultural exports are sold in the United Kingdom. Our sales of farm products to British buyers in 1929 amounted to some 445 million dollars; in 1937 they were only 261 million dollars.

After the United Kingdom, Canada buys more goods from the United States than does any other country. She is, in other words, our second largest customer. In 1937 she bought 610 million dollars' worth of our exports, and we bought almost 400 million dollars' worth of Canada's exports. Very naturally our great next-door neighbor needs and wants innumerable United States products just as we need and want innumerable Canadian products.

The concessions embodied in the agreements with the United Kingdom and Canada cover more than 3,000 tariff items. Our total exports to and imports from the areas concerned amounted in 1937 to \$2,025,322,000. Of this total, 68 percent, or \$1,377,422,000 worth of trade, is covered by the concessions given and received in the agreements.

The British agreement carries with it the abolition of all British duties on wheat, on lard, on canned grapefruit and grapefruit juice, on the greater part of American lumber in the event that the United States import tax on lumber is repealed. It carries substantial reduction of duties on rice, on apples, on pears and many canned fruits, on canned salmon, on canned asparagus, on typewriters and various kinds of office machinery, on certain household electric equipment, on doors, on silk stockings. It carries guarantees of continued free entry for American corn, for cotton, and certain pork products. It carries a substantially increased quota for American hams.

The Canadian trade agreement carries with it concessions which touch almost all of the highly varied industrial and agricultural products which we customarily export to Canada.

For these concessions of great value to us we have given in return concessions to Great Britain and to Canada, but in all cases so carefully drawn that our own producers are protected. To the British we have given concessions relating largely to our textile schedules and to metals and manufactures thereof. Many of our duty reductions are confined to English specialty goods not competitive with American production.

In some cases, concessions are given where imports constitute but a negligible proportion of our consumption; in others, where imports supply almost all the consumption because of the virtual nonexistence of domestic production. A number of concessions consist not in reducing



but in guaranteeing existing duties against increase. Such is the concession given to the United Kingdom on whisky.

In a word, both the British and the Canadians have given us the maximum concessions which they could make without undue injury to such of their domestic production as is competitive with our own. We have done the same for them. The result is two well-balanced agreements, both of which promise highly advantageous increased economic activity in each country.

Will these agreements really affect the everyday lives of Americans in offices and farms and factories? Or are they of interest only to a small group of exporters whose profits obviously depend upon selling their products abroad?

American factory workers, like American farmers, are learning through hard experience that increased employment and increased pay rolls come with increased trade, and that trade can be tragically crippled and millions of men thrown out of employment, as they were in 1930 and 1931, by impassable trade barriers and embargo tariffs. Between 1929 and 1932 foreign imports into the United States fell to only one-third of their former value; unemployment rose to unprecedented heights. If there is one objective which we who are responsible for the trade-agreements program seek it is increased employment for American workingmen. In terms of new jobs and increased pay rolls the two agreements are bright with promise.

### III

The significance of these agreements, however, does not lie merely in their opening the way to increased trade and increased profit on both sides. Their crucial importance lies in their influence upon the commercial policies of the greatest trading nations of the world.

Every great war results in new waves of economic nationalism and growing trade barriers.



The World War was no exception. Our own country in 1921 and again in 1922 increased the height of our tariff wall. In 1930 we raised our tariff duties to the highest in all our history. Canada struck back with a heightened tariff wall of her own, directed largely against United States products.

Great Britain, which, ever since the repeal of the corn laws in 1846 and the signing of the Cobden Treaty with France in 1860, had been a free-trade bulwark, in 1931 and 1932 abandoned her free-trade policy and enacted a sweeping increase in her tariff structure. In 1932 the Ottawa agreements were signed, based on imperial preferences between the United Kingdom and her dominions and colonies, thus effectively diverting a considerable amount of trade from the United States to British dominion and colonial markets.

Even more disastrous than increased tariff walls and imperial preferences were new economic devices adopted throughout the world to control and regulate imports and exports—quota restrictions, exchange control, import and export licensing requirements, government monopolies, and the like.

As a result of this calamitous movement, international trade became blocked by impassable barriers. Values collapsed. Between 1929 and 1933 American foreign trade fell from \$5,157,000,000 to \$1,647,000,000. American exports of cotton decreased in value by 48 percent, those of meat and meat products by 67 percent, and those of wheat and flour by 90 percent.

When trade drops both sides suffer. Wheels stop turning, men are thrown out of employment, pay rolls are slashed, purchasing power declines, domestic markets fall off. Incalculable human suffering spreads throughout the land.

Realizing that lasting domestic prosperity cannot be had without the means of selling national surpluses in foreign markets, Congress

in 1934 passed the Trade Agreements Act, to make possible bargaining down the barriers which were blocking international trade.

The program for sound trade practices thus inaugurated by the United States has had marked success. During the 4½ years since the Trade Agreements Act was passed, agreements have been signed with 19 countries, accounting for about 60 percent of our total foreign trade. During the 2-year period of 1937-38, in comparison with the 2-year period of 1934-35, according to the most recent estimates for 1938 trade, the increase in United States exports to all trade-agreement countries was 62.5 percent, whereas the increase in our exports to non-trade-agreement countries was but 25.5 percent.

At the same time, by means of the trade-agreements program, many of the excesses and unjustifiable extremes of the Hawley-Smoot Tariff Act which have been working to the deep injury of our farm groups and, indeed, of the Nation as a whole, are gradually being smoothed away and adjusted to the benefit of all. As a result, increased exports have been accompanied by increased imports, which have been of benefit to our consumers and which because of the care with which the concessions have been formulated and the general economic improvement resulting from the increase of exports have not caused substantial injury to any American producer.

The two new agreements, built, like preceding ones, upon principles of equality of treatment and nondiscrimination, mark a long additional step in the direction of liberalized and sound trade practices. Both the United Kingdom and Canada in these agreements have notably modified their policies of protection and preference, and have joined with the United States in a policy of trade liberalization. In view of the fact that the trade of the United States and of the countries with which we have concluded trade agreements constitutes almost three-fifths

of the international trade of the world, it is evident that our program, built upon the sound principle of lowered trade barriers and nondiscrimination, and designed to counter the crippling and provocative trade practices which followed the economic crash of 1929, is proving practical and effective.

The two recent trade agreements constitute a powerful marshaling of tremendous forces in support of sound principles and in opposition to unsound practices. They mean the liberation in each of the three countries of new energy and economic activity. They mean wheels turning which were idle before, workers going off relief rolls onto pay rolls, increased purchasing power, new, revitalizing blood coursing through each national organism.

But they mean much more. They mean that the great trading nations have their faces turned toward the future and are prepared to act in defense of sound trade principles. They give promise of the victory of the only commercial policies upon which civilization can go forward and lasting world peace can be built.



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# Democracy in Action

*Address by*

FRANCIS B. SAYRE

*Assistant Secretary of State*

*before the*

FOURTH CONFERENCE OF THE

WOMAN'S NATIONAL DEMOCRATIC CLUB

Washington, March 22, 1939

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# Democracy in Action

Address by Assistant Secretary Sayre<sup>1</sup>

IT IS a signal pleasure for me to have this opportunity of speaking to you, representatives of the Democratic women of America. You represent a great and potent force, not only in this country but in the world. The future destiny of untold millions must depend upon the outcome of the profound conflict of ideas and ways of life which are tearing the world apart today.

This struggle is nothing new. In the seventeenth century England was torn with the same elemental struggle between an autocratic group working for arbitrary selfish domination and those who fought for larger rights and greater liberties for the "common" people. In 1688 humanity won against the selfish few, as eventually it always will.

In the eighteenth century the struggle blazed out again; once more the desires of a selfish few were pitted against larger human liberties. The fate of colonial America hung in the balance. The people once more triumphed; and out of the struggle there emerged in 1776 in the New World a Nation founded upon the audacious thesis that all men are created equal, and that therefore all must have equal rights before the law and none must have special privileges. Democracy, thus concretely realized, entered upon a new chapter of its existence. In 1788 this bold conception was woven into the very fabric of the American Constitution.

In the nineteenth century the struggle between selfish forms of privilege, now taking the form of monarchy, and human rights and liber-

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<sup>1</sup> Nationwide broadcast over Mutual System from station WOL, Washington, D. C.



ties, now expressed in the flaming new conception of democracy, broke out afresh. In 1830 and in 1848 Europe was spectacularly shaken, and democracy again emerged triumphant.

Today it is essentially that same elemental struggle that shakes the world. In large areas of Europe again there have arisen small determined groups, in control of supreme military power, who to achieve their own purposes would defy human rights and human liberties. Again the eternal conflict rages between narrow and self-willed autocracy and human liberty and democracy. Democracy once more is at stake; and for the people of the United States, which was born of democracy, the issue cuts to the quick.

But at the present moment, more than democracy is at stake. The forces of autocracy have thrown to the winds the great principles for which our fathers poured out their blood and upon which alone human progress can rest. The issue today is not only between autocracy and democracy, but between a way of life based upon faith in the pledged word, the sanctity of law, the restraint of moral principles, and a way of life based upon ruthless force and unrestrained brutality. In a word, our whole civilization, the precious heritage of centuries, is now at stake. Shall it progress or shall it be smashed? The outcome is the vital concern of every civilized nation. The issue has been made burning clear by the events of the past week.

Tonight, however, I want to turn my thoughts in another direction. Democracy may have to be defended from without, but it must be created from within. True democracy is a thing of the spirit.

It is true that democratic peoples may be forced to fight against aggression and brutal ruthlessness that would destroy them, but always we must remember that such a war

cannot create democracy. A war to defend democracy, even victorious, may end by crushing it.

Democracy is never a negative force. It cannot be created by mere condemnation or resistance of undemocratic governments. It is essentially constructive and creative and emerges out of the hearts and lives of the rank and file of people. It is imperative that nations built upon the great heritage of democracy should continually create and recreate the spirit of democracy in every rising generation.

Democracy means more than a form of government. It means belief in a larger freedom for individual men and women, in the equality before the law of all men, in human brotherhood. *Liberté, égalité, fraternité*. It means a profound faith that the ultimate values in life lie in individual human personalities. You see, it gets down pretty close to the fundamentals of Christianity.

Christ taught the infinite worth of each individual human personality, the power of love which knows no distinction of class or race or creed, the brotherhood of man under the Fatherhood of God. And, believe me, if we are to find solutions for the seemingly insoluble national and international problems which beset us on every hand, if we are going to avoid catastrophe and move forward in the great march of human progress, it must be and can only be by a return to the bedrock principles which Christ taught 1,900 years ago. In spite of the scoffing of so-called "practical men," history has proved and is proving that Christ was the most daring and understanding realist that ever lived.

The cause of democracy is to be nourished and fortified, then, not by defense from without, necessary as this may at times prove to be. True democracy can be won only by constructive effort at home and by intelligent support of measures such as make for democracy.

The theme for this evening's discussion is international cooperation. Well, what does real democracy mean when translated into terms of international cooperation?

This is a subject so vast that one can attempt within the allotted time only to touch upon one or two outstanding phases of it. And tonight I want to limit myself to the field of commercial and economic cooperation.

Within this field two profoundly conflicting policies are struggling for dominance throughout the world—the one, a policy of economic nationalism, and the other, that of liberalized international trade. Upon the future of this issue will depend much of our future history.

The forces of economic nationalism are of great strength. They are built upon the two-fold foundations of protectionism and of economic isolationism. Protectionist forces must always be reckoned with. Strong pressure groups with sectional or sometimes purely selfish ends in view are constantly seeking higher tariff walls or trade embargoes so as to cut off domestic markets from the competition of foreign goods and thus to secure monopolistic profits for themselves without regard to the increased costs to consumers.

To these forces, particularly during the period following 1929, has been added the weight of economic isolationism. The last decade has been a time of collapsing world prices, of depreciating and fluctuating currencies, of sudden and unpredictable shifts in the flow of world trade. No nation, as long as it was obligated to meet debt payments abroad and dependent for a substantial part of its income upon the sale of exports in foreign markets, could feel secure. As long as world prices were like shifting quicksands, as long as foreign currencies were varying widely from month to month and from week to week, as long as international trade was harassed and beset by rapidly increasing difficulties and hindrances, the only sound pathway to security for each

nation seemed to many to lie in isolation so far as humanly possible from an economically chaotic world. Economic nationalism won nations not so much by its inherent desirability as through the seeming compulsion of circumstances.

Economic nationalism has always been of popular appeal. It wins the ready support of the man on the street because it appeals to his patriotism to make his country independent of foreign markets and of other nations' policies over which his own nation has no control. It wins powerful industrial and political support because it means freedom from the competition of foreign goods and gives the possibility of monopolistic profits. It wins strong military support because a nation's strength in war-time often has to depend upon its own resources.

But theoretically desirable as economic nationalism may seem, it cannot be had except at a heavy cost. As every student of the subject knows, no modern industrial country can possibly be 100 percent economically self-sufficient. Germany lacks petroleum and other raw materials; England without imported food-stuffs would face food shortages in a few weeks; Italy has no coal or cotton. Even the United States, the most nearly self-sufficient of any nation today, lacks tin and rubber and coffee and many tropical and other products necessary for modern life. The further our complex civilization progresses the more dependent every industrialized nation becomes on products of other countries and of other climes.

The road toward self-sufficiency, therefore, is not easy. It becomes a matter of degree. Germany can produce synthetic fuel, but at heavy cost. England can intensify her agricultural program, but this involves shutting out many competitive foreign foodstuffs and raising the cost of food to her people by millions of pounds. Italy can displace cotton by

substitute materials, but the cost of producing these runs to staggering amounts. The United States could grow coffee plants under glass, but think of the cost.

It is self-evident that the further a nation goes in shutting out desirable foreign products and supplanting them with home production of goods which the nation is economically or geographically unfitted to produce, the more staggering become the costs, and the more intense becomes the downward pressure upon the nation's standard of living.

Germany has probably gone as far in this direction as any industrial nation. The cost today in Germany of lard, of wheat, of synthetic rubber, of motor fuels, and of numerous other commodities is more than two or three times the price for which Germany could buy such commodities in world markets. "Tightening the belt" to create facilities for the production of costly substitutes is thus described by Dr. Hjalmar Schacht:

"I should like to make perfectly clear that autarchy, whether natural or produced artificially, cannot possibly be an ideal. It is opposed to the general principles of civilization. . . . We ought to reject autarchy on principle, because it will necessarily lead to a lowering of the standard of life of the German people."

As one studies the gradual effects of the policy of economic self-sufficiency, as one measures the towering costs and watches the standard of living of a great people being forced slowly, inevitably downward to lower and lower levels, one becomes more and more convinced that surely this is not the way toward a fuller and more abundant life for the individual men and women who bear the nation's burdens.

Surely this is not the pathway toward democracy. Economic self-sufficiency requires governmental prohibition or restriction of those imports which can be produced more satisfac-



torily abroad than at home. The Government must assume to dictate quite arbitrarily what imports shall be allowed to enter the country and what shall not; with no less arbitrary action it must control home production by ordering domestic capital and labor to enter into certain fields of production and to keep out of certain others. In time it necessarily and inevitably involves government dictatorship over the flow of capital, over prices, and over labor. Economic self-sufficiency cannot possibly be had without a degree of regimentation and arbitrary bureaucratic control in utter conflict with every American tradition and ideal of individual freedom.

As contrasted with the policy of economic nationalism, the policy of liberalized international trade makes for increased human liberties and for the progress of civilization. The geographical distribution of raw materials is so uneven throughout the world and the diversity of climates and soils is so great that with the advance of invention and with the demands of modern industry nations must trade if humanity is to go forward. For a nation to cut itself off from various imports simply because they can be produced more cheaply in other parts of the world is manifest folly.

Moreover, without increasing international trade, there can be no lasting world peace. Economic self-sufficiency rests upon heightening trade barriers and increasing measures of trade discrimination. It means economic conflict between nation and nation growing ever more intense and more savage. Nations, desperately in need of raw materials and food-stuffs for the maintenance of their populations and of foreign markets for the sale of their surplus production, cut off from these through the breakdown of customary processes of orderly trade, may be driven almost irresistibly toward methods of conquest and the mailed fist to take by force what they so sorely need. Economic nationalism is the way to war.



As between the two conflicting policies, therefore, of economic nationalism and of liberalized international trade, there can be no question which makes for and which makes against democracy. Indeed, it is no accident that the three dictator nations of the earth who oppose democracy are pursuing policies of more and more extreme economic nationalism.

What is the significance of this to you, representatives of democracy throughout America? Simply this.

If we are to look bare facts in the face, the most practicable, if not, indeed, the *only* practicable program for opposing economic nationalism and for trade liberalization is the American trade-agreements program. It is based upon the sound method of getting nations to agree reciprocally to reduce excessive trade barriers to their mutual profit and to refrain from all discriminations against the other's trade. Here is a program for the good of all as opposed to the selfish interests of the few. And here is a program which, judged by the acid test of concrete results, has proved itself highly practicable.

Agreements have already been concluded with 19 countries that account for nearly 60 percent of our total foreign trade. Among them are Great Britain and Canada, respectively our largest and our second largest customers. No fewer than 3,000 reciprocal concessions are contained in these two agreements. Our total trade with the areas embraced within them amounted in 1937 to over 21½ billion dollars. Of this, about two-thirds is covered by concessions given and received.

United States exports have approximately doubled since 1933, the year preceding enactment of the Trade Agreements Act. By no means all of the increase can be attributed to the agreements. But it is significant that exports to trade-agreement countries averaged 61.2 percent greater in 1937 and 1938 than our average exports to the same countries in 1934

and 1935, while our exports to nonagreement countries increased by only 37.9 percent.

Both agriculture and industry have profited enormously by the agreements already made and stand to profit still more. By means of the trade-agreements program important foreign markets have been secured for American products, and American exports have been protected from foreign discrimination.

Less tangible but more important are the resulting gains which cannot be statistically measured. Policies of retaliation and ill will toward America and toward American products have been replaced by policies of good will and commercial cooperation. Just as the policy embodied in the Hawley-Smoot Tariff Act stirred resentment and spread a contagion of trade restrictions throughout the world, so today the United States is exerting a profound influence in the direction of trade liberalization. Actual and costly discriminations against American products in such important markets as Canada and France have been eliminated and guarantees have been secured against future discriminations in countries accounting for three-fifths of our total foreign trade. On many important products Empire preferences in favor of British goods have been bound against increase, reduced, or eliminated. In view of the fact that the total foreign trade of the United States and of the countries with which we have concluded trade agreements guaranteeing most-favored-nation treatment constitutes almost three-fifths of the total international trade of the world, it is evident that the effect of the American program must be world-wide and profound. In the success of this program for the liberalization of trade, democracy has much at stake.

Yet at this very time the trade-agreements program is under severe attack in Congress. There are those who would place purely sectional interests above the national welfare. They would cripple the program by raising

still higher excessive duties on this or that commodity or by hamstringing the process of negotiation by requirements making for increased delay or uncertainty.

Whatever one thinks of the program, there is only one practical alternative. That is the method of the Smoot-Hawley tariff—ever-increasing American tariffs and a more intense economic nationalism; and that means heightened trade barriers not only in the United States but throughout the world, increased economic tensions and financial strains, conflict reaching an acute and highly dangerous stage.

For those who genuinely believe in democracy, now is the time for action. Autocratic and selfish forces are not confined to dictator countries. They are at work in this country as in others. In the field of economics we can effectively fight for democracy through aggressively opposing the crippling of the trade-agreements program.

If democracy is to live again, as it lived in 1776, in this as in other significant ways, we must put our faith and our beliefs into action.



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# Five Years of the

# Trade Agreements

By

FRANCIS B. SAYRE

Assistant Secretary of State

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# Five Years of the Trade Agreements

ALMOST 5 years have passed since the inauguration of our trade-agreements program under the act of June 12, 1934. What is the significance of the program against the background of our past commercial policy and what has it accomplished?

Earlier attempts to expand our exports through international bargaining had met with little success, partly because they were based on threats of increased barriers as an inducement to negotiation and partly because the field which they covered was extremely narrow. The McKinley Tariff Act of 1890 authorized the President, "with a view to secure reciprocal trade," to impose specified duties on five articles then on the free list coming from countries charging duties against American goods which he found to be "reciprocally unequal and unreasonable." These five articles were sugar, molasses, coffee, tea, and hides. Under this act 10 reciprocity agreements were concluded, but as these were necessarily confined, so far as "concessions" on our side were concerned, to withholding the imposition of discriminatory duties on the five articles specified, the results were inevitably meager and the negotiations were not particularly conducive to increased cordiality of trade relationships.

A second attempt was made in the Dingley Tariff Act of 1897. Section 3 of this act expressly authorized the President to conclude reciprocal commercial agreements, without Senate approval, but restricted our concessions to minor duty reductions on the following com-

modities: "Argols or crude tartar, or wine lees, crude; brandies or other spirits manufactured or distilled from grain or other materials; champagne and all other sparkling wines; still wines and vermouth; paintings and statuary." A further paragraph, similar to the McKinley Tariff Act, authorized the President to impose retaliatory duties on the following free-list articles: "Coffee, tea and tonquin, tonqua or tonka beans and vanilla beans." Obviously it was impossible, with such limited bargaining power, to obtain significant results. Section 4 authorized the negotiation of trade treaties of wider scope; but because these treaties required Senate approval, they came to naught. None was ever reported out of the Senate Committee on Foreign Relations.

Yet, in spite of the meagerness of results, Congress in 1890 and 1897, under Republican control, blazed the pathway toward a sound foreign-trade policy; and the need for reciprocal trade arrangements was understood and urged in broader form in 1901 by a Republican President. In his last speech President McKinley said:

"By sensible trade arrangements, which will not interrupt our home production, we shall extend the outlets for our increasing surplus. A system which provides a mutual exchange of commodities is manifestly essential to the continued and healthful growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy little or nothing."

President McKinley recognized that America's unparalleled productivity in field and factory demanded outlets abroad and that the day had come when, because of our growing economic strength in many important fields of production, we could safely reduce those tariffs which had become excessive and which were in-

juring rather than benefiting our national economy. But the reactionary forces of protectionism proved too strong, and for 12 more years they rode the Nation with tight rein.

The Underwood Tariff of 1913 was a bold and forthright attack upon increasing protectionism, but its effect was lost in the economic chaos attendant upon the World War.

As a result of the war the position of the United States was reversed almost overnight from a debtor into one of the greatest creditor nations in history. However, instead of facing the implications and realizing the opportunities of our new world position, instead of retaining the Underwood Tariff as a means of continuing our increasing exports and at the same time of permitting Europe to service her debt to us, we heightened our tariff wall in 1921 and again in 1922.

It is self-evident that foreign nations cannot continue indefinitely to buy our goods if they are prevented from selling to us goods in exchange. Trade is a two-way process. Our post-war policy of trying to combine vast exports with meager imports was manifestly unsound.

For a time the disastrous effects of this policy were concealed by huge loans with which we enabled European and other debtors to continue their purchase of great quantities of American goods by increasing their debts. From 1925 to 1929 our foreign lending averaged more than one billion dollars a year. In effect, we were depleting our national resources by shipping exports in return for promises to pay, and at the same time by our tariff policy we were making it progressively more difficult for our debtors to honor their promises. Our loan and tariff policies thus had the effect of adding to the economic dislocations and tensions of our debtors. We helped to pile up still higher the already overlaid debt structure of the world

and contributed to the world-wide trade barriers which prevented orderly payment. Finally, at the end of the decade, we abruptly discontinued good and bad loans alike. Debtor nations that had become dependent on these loans had neither time nor opportunity to reorganize their economies. With the crash of 1929 came a world depression of unparalleled intensity, duration, and scope.

In the following year we passed the Hawley-Smoot Tariff Act of 1930, raising our tariff rates to unprecedented heights, in the face of warnings from more than 1,000 economists at home and despite the grave concern of many friendly governments abroad with which we had important and profitable trade relations. It proved an economic boomerang. Canada retaliated in kind with heightened tariffs against American goods; the British Empire replied at Ottawa in 1932 with a system of Imperial preferences, which was to have far-reaching effects in artificially diverting trade and displacing United States products by British and Dominion goods; other nations, finding themselves no longer able to sell in accustomed markets, fenced off their own markets by ever-mounting tariff walls of their own.

As trade barriers mounted, international trade decreased. Each nation's imports constitute some other nation's exports. International trade is as necessary to the health of the world as the circulation of blood is to the body. As trade decreased, financial tensions increased and economic strains became more and more unbearable. To protect their currencies and to afford at least temporary relief, new economic devices were introduced and enforced on a widespread front—quota restrictions, exchange control, government monopolies, and the like. These new forms of trade barriers, combined with the general raising of tariff levels throughout the world, dealt a body blow to international trade. Its volume and its value fell spectacularly. Be-

tween 1929 and 1932 the value of American exports fell from \$5,157,000,000 to \$1,576,000,000. The value of our cotton exports fell by 55 percent, of meat products by 76 percent, of automobiles and parts by 86 percent, and of wheat and flour by 73 percent.

This wrecking of our foreign trade could not but result in far-reaching and disastrous dislocations in our domestic economy. In 1929 the United States sold abroad more than half of its cotton crop, nearly a fifth of its wheat, two-fifths of its leaf tobacco, nearly half of its lard, a third of its rice, and almost half of its dried fruits, as well as enormous quantities of automobiles, agricultural and other machinery, typewriters, radios, and the like. The loss of export markets meant unsalable surpluses thrown back upon home markets; the result was not only loss to producers of unsold surpluses, but depressed prices at home for the entire output because of glutted domestic markets. When we lose foreign markets the resulting injury, like an infectious disease, spreads throughout our domestic economy.

How to prevent the spread of further disaster was one of the major problems which faced the incoming administration in 1933. Business men and public officials of both parties had finally learned by hard experience that excessive tariffs and other trade barriers wrecked the delicately framed economic and financial structures of all industrial countries, including our own.

There was talk of simply repealing the Hawley-Smoot Act and so, by unilateral reduction of our own tariff duties, attempting to undo its evil consequences. But from the political viewpoint a general downward revision of our tariff in 1933 would have been impossible. Furthermore, no unilateral reduction on our side would have reduced the foreign barriers which were preventing the sale of American exports abroad. Since practically every nation was strongly entrenched behind formidable



trade barriers of its own, obviously the only practicable approach lay through international agreement.

For this purpose the method of a multilateral convention was manifestly unsuited. So complex and difficult are the present-day problems of trade and so conflicting are the commercial policies and practices of every nation that, as the experience of the London Economic Conference in 1933 luminously proved, it is impossible through this method to find a common denominator that will simultaneously solve the trade problems of all. Obviously it is easier to find a reconciling formula for the conflicting policies of two nations than of ten or a dozen. The most practicable method for solving international trade problems lies through reciprocal concessions exchanged between two nations and the extension of these concessions to other nations through the most-favored-nation policy.

To attain results that were realistic, past experience had proved only too clearly that these two-way agreements must take the form, not of treaties requiring Senate approval, but of Executive agreements. During its whole history the United States, in spite of numerous fruitless attempts, has succeeded in actually concluding only three tariff reciprocity treaties, and these were special cases of countries to which we were closely bound by geographical or political ties. The requirement of Senate approval necessarily spells delay and uncertainty, the very prospect of which dampens or prevents negotiations. As President Roosevelt said in his message to Congress on March 2, 1934, "a promise to which prompt effect cannot be given is not an inducement which can pass current at par in commercial negotiations."

From these various considerations, from the long experience flowing out of trial and error, from continuing deliberations of Government officials and Congressional committees, was evolved the Trade Agreements Act of 1934.



The act authorizes the President to enter into Executive agreements for the reciprocal reduction of excessive trade barriers and to make such tariff adjustments within prescribed limits as are required or appropriate to carry out such agreements. Its purpose is declared to be that of—

“expanding foreign markets for the products of the United States (as a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public, and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining, and commerce) . . .”

The President may not modify existing customs duties beyond 50 percent, nor may he transfer any article between the dutiable and the free lists. The duties thus proclaimed by the President shall be applicable generally to the products of all countries, except that the President may suspend their application to the products of any country “because of its discriminatory treatment of American commerce or because of other acts or policies” which tend to defeat the purposes of the act.

The act also provides for open hearings and for interdepartmental consultation. Public notice must be given before any agreement is concluded in order that interested parties may have an opportunity to present their views.

Thus, for the first time in our history, the United States was in a position to adapt its tariff and commercial policy realistically to its vital needs and to world conditions. For the first time in our history we could press forward upon a program shaped to protect and further the interests and welfare, not of narrow sectional areas or groups, but of the Nation as a whole. And for the first time in our history

we had an effective method for protecting our American producers from foreign trade barriers and discrimination abroad.

Since the passage of the act almost 5 years have elapsed. From the viewpoint of the realist, what has the new policy embodied in the act actually accomplished? Judged by the acid test of concrete results, what does the record show?

Agreements have been concluded with 19 countries that account for nearly 60 percent of our total foreign trade. Among them are Great Britain and Canada, respectively our largest and our second largest customers and among the first to retaliate against the Hawley-Smoot tariff. Now they join with us in a policy of trade liberalization. Canadian imports from the United States increased from \$312,000,000 in 1935, the last pre-agreement year, to \$369,000,000 in 1936 and to \$491,000,000 in 1937. Our agreement with the United Kingdom went into effect January 1, 1939, and it is, therefore, still too early to appraise the value of its benefits. No fewer than 3,000 tariff items are affected by the two agreements. Our total trade with the areas embraced within them amounted in 1937 to over two billion dollars. Of this, 68 percent is covered by concessions given and received.

United States exports have approximately doubled since 1933, the year preceding enactment of the Trade Agreements Act. By no means all of the increase can be attributed to the agreements. But it is significant that exports to trade-agreement countries averaged 61.2 percent greater in 1937 and 1938 than our average exports to the same countries in 1934 and 1935, while our exports to nonagreement countries increased by only 37.9 percent.

Both agriculture and industry have profited enormously by the agreements already made and stand to profit still more. The United Kingdom removed entirely its 6-cent duty on

American wheat. Several countries have reduced their tariffs on wheat flour. The United Kingdom removed entirely its 10 percent duty on lard, which ranks third in value among American agricultural exports to that market. As a result of our first agreement with Canada, the Canadian duties on our fresh meats, bacon, ham, lard, cured meats, extracts, and other meat products were reduced from 12 to 65 percent. Cuba, once the third best customer for American lard, reduced its duty from a rate equivalent to 9.6 cents a pound to 2.3 cents in the first year of the agreement and agreed to a further reduction to 1.5 cents in the third year. Cuba also abolished at the end of the second year its consumption tax of 1 cent a pound on lard.

Fruit concessions have also been numerous. All of the agreement countries except one have granted concessions on dried fruits of various kinds; eleven of them have granted duty reductions or bindings on fresh or canned citrus fruits, and all except two have granted benefits on some kinds of fresh fruits; all except one have granted benefits on various canned fruits. Many concessions of great value have also been obtained on vegetables.

Benefits to industry are equally impressive. Markets have been opened or extended for iron and steel semimanufactures, automotive products, electrical apparatus, industrial, agricultural and business machinery, rubber products, paints, hides and leather products, textiles, drugs, cosmetics, and various American specialty products.

In 1937 Canadian imports of our nonagricultural products on which concessions were obtainable in the Canadian Trade Agreement showed an increase of more than \$98,000,000 over those of 1935. Notable items were cotton piece goods, wearing apparel of cotton or rayon, rubber products, wood furniture, iron and steel products, automobiles, machinery, refrigeration, sewing and washing machines, electric

motors, radio apparatus, and photographic films. Canadian imports of passenger automobiles and chassis gained by 546 percent, farm implements by 74 percent, electrical apparatus by 84 percent, stone products by 38 percent, and other machinery by 173 percent.

Exports of industrial goods to other agreement countries also show impressive gains. Pages could be filled in recording them, and the Department of State or the Department of Commerce will gladly supply the details to anyone interested.

Not only has the trade position of the United States been improved absolutely, but also in relation to that of other nations that have not yet followed our example. The Netherlands imports from the United States increased by 71 percent in 1937 over 1935, although the increase in total Netherlands imports from all countries was only 35 percent. Belgian imports from the United States increased by more than 70 percent in 1937 over 1934, while total Belgian imports increased by only 44 percent. Swiss imports from this country increased in 1937 over 1935 by 28 percent; total Swiss imports from all countries by only 1 percent.

These important benefits to the export branches of American agriculture and industry have been obtained without real injury to American producers not engaging in exporting. Our agreements have stimulated a mutually beneficial increase in trade in both directions to the advantage of producers and consumers generally in the United States.

Less tangible but more important are the resulting gains which cannot be statistically measured. Policies of retaliation and ill will toward America and toward American products have been replaced by policies of good will and commercial cooperation. Just as the policy embodied in the Hawley-Smoot Tariff Act stirred resentment and spread a contagion of trade restrictions throughout the world, so today the

United States is exerting a profound influence in the direction of trade liberalization. Actual and costly discriminations against American products in such important markets as Canada and France have been eliminated, and guarantees have been secured against future discriminations in countries accounting for three-fifths of our total foreign trade. On many important products Empire preferences in favor of British goods have been bound against increase, reduced, or eliminated. In view of the fact that the total foreign trade of the United States and of the countries with which we have concluded trade agreements guaranteeing most-favored-nation treatment constitutes almost three-fifths of the total international trade of the world, it is evident that the effect of the American program must be world-wide and profound.

In the words of Secretary Hull, "the program . . . offers the only practicable alternative to a drift toward the anarchy of economic warfare, with all its disastrous consequences for the peace and progress of man. Its workability has been demonstrated beyond a shadow of doubt. It can be embraced by all nations alike, without exception, and to the benefit of each and all."

Under modern conditions industrial nations must trade in order to maintain existing standards of living for their peoples. Whatever prevents trade depresses peoples' standards of living, increases the unemployment of the world, and retards civilization. Nations which arise will adopt commercial policies which foster and promote international trade and thus further human welfare. Here lies the elemental strength of the American trade-agreements program. It leads away from economic conflict. It builds the kind of economic foundations upon which alone human progress and lasting world peace can rest.





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# The Special Significance of the Trade-Agreements Program Today

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Address by

UNIVERSITY OF ILLINOIS

FRANCIS B. SAYRE

*Assistant Secretary of State*

*before the*

NATIONAL COUNCIL  
OF AMERICAN IMPORTERS, INC.

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## The Special Significance of the Trade-Agreements Program Today

*Address by Assistant Secretary Sayre*

IT IS indeed a great pleasure and honor for me to have the chance of lunching with you today and of discussing with you problems of trade and of commercial policy which have become in fact of utmost importance not only to our own Nation but to the whole world and to our very civilization.

Within the past century and a quarter the world has undergone a most amazing transformation. With the complete revolution of our whole industrial life following upon a series of miracle-working inventions beginning in the early nineteenth century, with the astounding development of telegraphic, telephonic, and radio communication, and of railroad, steamship, and aerial transportation, with the prodigious advance of technological development, we have become in very truth members of a world community. Within a comparatively brief space of time the world has advanced from a primarily agricultural civilization, characterized in the main by home and localized handicraft industries, to one of highly specialized, mass-production industries, whose very life is dependent upon markets for their products in distant regions of the earth and upon an uninterrupted flow of raw materials perhaps from the other side of the world. Thus, the separate nations of the eighteenth century world, with methods of craftsmanship, ways of life, and underlying ideas alien each to the other, have become a closely knit organic unity, with the various producing and consum-

ing areas as closely dependent upon each other as the parts of a single body.

International trade has been the life blood of this process. The increased specialization of industry and agriculture and the ever-broadening markets which modern communication and transportation have made possible have reduced the costs of goods to such an extent as to bring articles which were counted as luxuries a few years ago into the everyday use of millions.

We have achieved these material benefits and built up the present high standard of living—higher than any ever before achieved in the history of mankind—by the creation of a vast and delicate economic mechanism. So closely interlocked, so nicely adjusted, are the various parts of this mechanism that the break-down or maladjustment of any single part affects and threatens the entire economy of the world.

Beyond our borders in recent months we have seen the world plunged into a great sickness of unreason and violence. We cannot disregard the inevitable effects of this activity upon our own interests and upon those of the world. Judged alone by material consequences, war or even the fear of war, means disorganized prices, fevered activity in war industries, unemployment in others, world-wide dislocation. Even countries which may seem to be remote from the scenes and issues directly involved, in reality are but parts of an economically interdependent world.

Nor can we close our eyes to the larger issues involved. No great nation which through the heroic efforts and consecration and sacrifice of its truest and best has toilfully built up over the centuries a rule of law and order, faith in the pledged word, and standards of civilized conduct such as we know them today, can afford to stand idly by and see that work smashed by a reversion to ruthlessness and force. Humanity will not endure such a betrayal of our most precious heritage.



The spiritual values of our civilization, the relationships which enable man to live peaceably with man, the whole fabric of our social structure are endangered. Violence begets violence—in increasing ratio. It is indeed doubtful whether our civilization can endure the shock of another world-shaking conflict.

The lengthening shadow of international lawlessness across the world makes it imperative for us to weigh carefully our national policies. It makes it imperative to choose the kind of policies which make for peace and which constitute the kind of foundations upon which alone peace can rest. Today, from this viewpoint, I want to consider with you some of the problems which lie before us in the determination of our own national commercial policy.

In the field of commercial relations, no less than in the field of political relations, nations must choose between two widely diverging and conflicting policies. On the one hand, in spite of the inescapable fact of the present-day vital interdependence of national economies, a nation may either ignore or seek to overcome this fact, and follow an economic policy based upon isolationism or upon a narrow nationalism. On the other hand, a nation recognizing the undeniable advantages that come from the international exchange of goods, may adopt an economic policy based upon a broad liberalism and the furtherance of international trade. The choice between these two alternative policies will have profound and far-reaching consequences not only in the nation itself but in the world at large.

I do not mean that at the outset nations deliberately commit themselves wholly to either the one or the other of these two extremes. Indeed national policies are seldom altogether black or altogether white. They are marked with grays and many subtle overtones. Nevertheless, once having launched into the current

of economic nationalism nations frequently are swept far beyond the placid waters into which they originally launched, and as a result may become deeply committed to practices which at the outset they never dreamed of adopting.

The policy of economic nationalism in the present-day world has certain fairly definite earmarks. If a nation sets out to become economically self-sufficient unto itself or through reduced exports is forced along that road, it is evident that measures must be taken severely to restrict its imports. However, as imports are more and more drastically cut, it becomes increasingly difficult to sell exports, since, as everyone knows, trade is a two-way process and the sale of exports is necessarily dependent upon the purchase of imports.

The inability to sell exports in foreign markets results either in diminished output and consequent unemployment or in piling up huge surpluses which glut domestic markets and depress prices, not only for the surpluses formerly exported but for the entire crop or output. The further the nation is carried in its loss of export markets the more acute becomes the problem of diminished production or burdensome surpluses.

To relieve these problems nations launch into various forms of restriction and control of domestic production. This becomes all the more intense as nations seek to stimulate and build up industries and enterprises to produce such goods as were formerly imported. Sooner or later the government must assume a life-and-death control not only over all the commodities which come into the country and go out of the country, but also over the conduct of domestic business and private industry as well.

To achieve these ends strict forms of foreign trade control have to be adopted. It may be that these will take the form of import licenses, of control of the movements of gold and foreign exchange, of quota restrictions, of govern-

ment business monopolies of one kind or another, or combinations of some or all.

The burden of unsalable surpluses also leads to artificial methods in order to force exports onto world markets. This may be attempted through various forms of currency manipulations, including devaluation, through trade arrangements forced by stronger nations upon weaker ones, or by various forms of international dumping. One of the most common forms of dumping is the payment by the government of export subsidies so as to enable its goods to undersell in world markets the naturally lower-priced goods of its competitors. The adoption of export subsidies frequently necessitates additional import restrictions either in the form of tariff walls or quotas to prevent the goods thus dumped and selling abroad at lower prices than at home from being brought back into the home market.

As the struggle to sell exports in world markets becomes more and more intense, nations launch into practices known as "bilateralistic balancing." In simplest form this means the insistence that each nation with which the country trades buy as much from it as it buys from the other nation. Thus are born clearing agreements and compensation agreements, frequently involving governmental sequestration and control of funds payable by one country's citizens to those of another. A country whose imports from another exceed its exports to the other by such an agreement is in a position to force the other to spend part or all of the proceeds from its export balance in the purchase of the former country's goods. Compensation and clearing agreements are for the most part highly unsatisfactory. Experience has usually shown them to result in formidable administrative difficulties and burdens and diminished trade.

With bilateralistic balancing goes trading in exclusive preferences and the discard of the

policy of equality of treatment embodied in the most-favored-nation policy. Exclusive preferences granted to one nation mean discriminations against every other nation, and discriminations involve retaliations and counterdiscriminations. Trading in exclusive preferences thus means constantly rising trade barriers, arbitrary and uneconomic diversions of trade and shiftings of trade channels, unceasing and mounting economic conflict.

With the increasing difficulties of selling exports is apt to come severe and crippling shortages of foreign exchange; and as the control over foreign exchange increases and tightens, blocked currencies are apt to result. Blocked currencies entail an infinite degree of bureaucracy and red tape; and to avoid the tangles and almost insuperable difficulties of buying and selling in countries with highly restricted or blocked currencies, resort is had to primitive barter—the exchange of goods for goods without the use of money. Obviously barter tragically restricts the nation's ability to buy and sell in the cheapest markets.

With the pushing of self-sufficiency to further and further limits, government control over domestic trade and domestic industry grows tighter and tighter, since domestic industries are dependent for many of their necessary raw materials and their markets upon foreign trade. Sooner or later the government must control and ultimately fix domestic prices; it must undertake to control and regulate capital outlays and expenditures; it must assume a degree of regimentation and strait jacketing of business and industry which denies economic freedom and initiative such as we know in this country and which is in utter conflict with the most fundamental principles of human liberty upon which our Nation was founded.

Need I go further? The nation forced into such a rigid and arbitrary economy, denying individual liberty, undertaking a totalitarian regulation and control over its citizens or sub-



jects, finding it necessary to deny them fundamental rights such as defined in our own Constitution, comes to be the very antithesis of democracy. Surely it is no accident that today the most outstanding dictatorships are in those nations most deeply committed to economic nationalism. I do not mean to suggest that either is necessarily the cause of the other. I do suggest that the two ordinarily are close companions and go hand in hand.

In brief, the course of the nation which launches out into the stream of economic nationalism is marked with shoals and white water of increasing danger—various forms of trade control to enforce selective imports and exports, such as quotas, government import licenses, exchange control, and the like; also artificial measures for the stimulation of exports, such as currency manipulation and export subsidies; and, ultimately, practices of bilateralistic balancing, compensation and clearing agreements, trading on a basis of exclusive preferences, highly restricted or blocked currencies, and barter. These for the most part are practices not adopted because of any virtue in themselves for the increase of trade, but resorted to as perhaps the only means of escaping mounting difficulties and problems which as a matter of fact are fundamentally due to the attempt to overcome the inescapable economic interdependence of nations.

In sharp contrast with the commercial policy of a narrow economic nationalism is that of liberalized trade and freedom of economic initiative. This has been the policy of the United States, particularly during the past 5 years, as embodied in the American trade-agreements program. Ours is a policy based upon individual liberty as contrasted with rigid governmental control and suppression. Its objective is more trade for the United States and more trade for the world, for we realize that only through international trade can national standards of living be maintained and human prog-

ress be had. It is based on equality of treatment of all nations, for only thus can economic conflict be avoided and the foundations for lasting peace be built.

One of the fundamental objectives of such a policy is to allow trade to flow through normal channels as shaped by economic considerations. I do not mean free trade, nor do I mean a return to nineteenth century *laissez faire* principles. What I mean is, that under the American policy trade is a matter of economics and not of international politics; that individual freedom and initiative under government control are given a vital and a large importance, and not ruthlessly eliminated; that the supreme values sought are more abundant lives for individual human personalities and not the government's place in the sun.

You see at once how deep-rooted are the consequences of a nation's choice of commercial policy today. We are touching close the crucial struggle of our times—the struggle between individual freedom and the advance of civilization on the one hand, and ruthless suppression and a new dark age on the other.

The point I want to emphasize is that, so far as we can see, probably the one or the other policy must ultimately come to dominate the world. There is not room in the world for both. If the policy of a rigid economy with its earmarks of blocked currencies, trading in exclusive preferences, economic knifing of competitors, diversions and control of trade for political as well as for economic ends—if this system triumphs it can be only through defeat of the other system of open trading, equality of treatment, and freedom of currency movements. For neither system is self-contained within a single nation. The resultant effects of each reach out over the world.

We see, as in a great world drama, the acute struggle between those two opposing systems in the markets of other nations. For instance, some of the smaller countries today are faced



with the alternative either of selling their goods to countries following the former system but of having to take payment in blocked currencies which if in sufficient proportion can bring them within the economic control and subjection of another nation or, on the other hand, of selling their goods perhaps in less quantity and probably for lower prices, but receiving free currencies in exchange with access to one of the richest markets in the world. If they choose or are forced into the former alternative they come within the orbit and the dominance of a system antipathetic to our own. The result is a weakening of our own system and a strengthening of the other.

In such a situation as this, one cannot fight fire with fire. For the United States to resort to trading in preferences, to bilateralistic balancing practices, to barter methods of trading, would be only tragically to weaken our own defenses. Our strength lies in our great market, our free exchange, our system of free economic initiative. The adoption of restrictive trade practices but weakens our economic equipment and courts defeat. It means partial surrender to the opposing system.

Of course, one should not be misled by names. A recent proposal by our Government envisages the barter of cotton and wheat for other strategic materials which we lack, such as rubber and tin. Some have misinterpreted this proposal as a tardy recognition that under present-day conditions resort must be had to barter if trade is to take place. It is nothing of the kind. The proposal has nothing to do with ordinary trade or with private commercial transactions. It is confined strictly to governments desiring to exchange each other's surpluses in order to build up stockpiles for emergency purposes. One of the essential features of the proposal is that each government, presumably by treaty, should guarantee that such commodities should be reserved exclusively for stockpile purposes to be held for

emergencies such as war and should not be allowed to flow into ordinary commercial channels.

It is of utmost importance that we see the international situation in its true light and do not underestimate our own strength and our own resources. There has recently been a tendency in some quarters to look at foreign trade through very dark spectacles. Particularly in view of German trade measures some have felt that we must accept as permanent the loss of foreign markets and the increasing regimentation of international trade.

Defeatism never accomplishes anything. It is the way to disaster. It is not the American way.

Policies which restrict trade are in the end self-defeating. As long as some countries can provide food or clothing or raw materials necessary for civilized life which other countries cannot provide as cheaply, or cannot produce at all, men will want to trade; and since human beings will not permanently permit their standard of living to be forced down to the level necessitated by a curtailment of all international trade, no possible turn of international events or temporary dominance of any particular philosophy can end international trade.

The majority of illiberal trade practices were not adopted because of any belief in their superiority. Barter for ordinary commercial purposes is clumsy at best; it is a reversion to the primitive, resorted to when more intelligent and productive methods break down. Bilateralistic balancing of trade is another practice which tragically restricts the freedom of trade and hence ultimately increases the cost of goods; it usually results in cutting the trade between two countries down to the level of the nation which buys the less. Blocked currencies are resorted to by nations which cannot buy and sell in the open market where goods can be had at lowest price. They are the mar-

of nations which are hampered and restricted in their activities by impaired trade and weakened currency systems. Export subsidies may temporarily increase certain kinds of exports, but in the long run they constitute a giving away of the nation's assets—often at less than cost—at the expense of the taxpayers.

Trade practices such as these are the direct result of foreign exchange shortages, of impaired credit, of waning assets, or of economic disequilibrium. They lead to economic deterioration, and, if persisted in, to ultimate defeat. They are generally recognized as profoundly unsatisfactory even by those nations which have been drawn into them, and the great bulk of the trade of the world is carried on by countries who seek the furtherance of sound and liberal commercial policies.

Practices such as these are not successful in building up permanent trade. A recent release of the Department of Commerce (dated April 16, 1939) gives interesting evidence of the trade results under German practices as compared with American trade with the 16 countries which had entered into trade agreements with us prior to 1938. During the 3 years from 1936 to 1938 inclusive, as compared with 1934–1935, the two preagreement years, imports from the United States into those 16 countries showed an average increase of about 39.8 percent; whereas imports from Germany into those countries during the same period increased on the average by only 1.8 percent. The report goes on to state that “the contrast between the relative worth of the two trade programs as a trade-enlarging medium is even more pronounced than revealed by statistical results when account is taken of the heavy export subsidies paid by Germany on many commodities.”<sup>1</sup>

Because of international developments during the past few months we need not fold up

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<sup>1</sup> *Press Releases*, vol. XX, No. 499, April 22, 1939 (publication 1324), p. 340.

our tents. Those nations who, with us, would follow the more liberal and constructive policies, based upon equality of treatment and freedom from excessive and unreasonable restraints, control by far the larger part of the world's trade. Only if we surrender, through a policy of defeatism or through inertia, can such practices come to dominate the world.

If we are sufficiently resolute and intelligent to adhere to our liberal policies and to avoid being drawn into contrary practices for the sake of temporary or partisan gains, all the cards are on our side. We can win and hold strong foreign markets if only we keep true to our principles.

One of the really great achievements of the American trade-agreements program has been its increasingly potent influence upon a growing number of the nations of the world to resist with determination the disastrous post-war trade practices which brought international trade to its knees. The program has worked powerfully against practices of autarchy, regimentation, discrimination, and economic conflict, and has fostered the reduction or elimination of uneconomic trade barriers and of all forms of discrimination.

As the American Constitution early in the nineteenth century powerfully influenced the spread of democratic government in many countries, so today the American trade-agreements program is powerfully influencing the reestablishment of democratic and liberal principles of international trade throughout the world. In view of the fact that the total foreign trade of the United States and of the countries with which we have concluded trade agreements based on liberal commercial principles constitutes almost three-fifths of the total international trade of the world, it is evident that the effect of the American program must be world-wide and profound.

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# The Dependence of Domestic Markets Upon Foreign Trade

*Address by*

FRANCIS B. SAYRE

*Assistant Secretary of State*

*before the*

CITY CLUB OF DENVER

Denver, Colo., May 26, 1939

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# The Dependence of Domestic Markets Upon Foreign Trade

*Address by Assistant Secretary Sayre*<sup>1</sup>

IT IS always a genuine delight to me to get back to the open-hearted people of the West. The great sweep of your limitless prairies and the majesty of your towering mountain ranges place their stamp upon the hearts and personalities of the people who live amongst them. Ever since the days of my early life when I ranched in the foothills of Montana I have loved the West. It is good to get back among you again.

## I

Of late we have been living through some pretty rough times. Particularly during the past few months, uncertainty and fear have gripped the hearts of millions of people throughout the world. The confident feeling of the late nineteenth century of security and assured progress is shattered. The increasing use of force, or the threat of force, as a means of attaining national objectives, is undermining and menacing those material and spiritual values which have been dearly won through centuries of toil and sacrifice. Our very civilization is threatened.

In times such as these men are asking of each other searching questions. We possess within our own country enormous natural resources and wealth; our varied climates and soil fertility bless us with almost every crop we need; our people are perhaps the most resourceful and

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<sup>1</sup> Delivered in connection with the celebration of National Foreign Trade Week.

intelligent of any race. Why not live in a snug little world of our own?

Why should we want to engage in foreign trade and thus make ourselves dependent upon other nations over whom we have no possible means of control? Why should we share our incomparably rich and extensive markets with other nations and allow foreign goods to compete with the products of American workers? Why should we not wall ourselves off from the alarms and commotions of a mad world and instead try to build for ourselves a sheltered garden of contentment?

But, alas, however alluring such a picture may seem, we must order our lives in a world of cold realities. The security and the prosperity which we long for can never be built on mere wishful thinking. We must be realists if we would achieve realities.

## II

Within the past few generations the world has undergone a most amazing transformation. With the complete revolution of our whole industrial life following upon a series of miracle-working inventions beginning in the early nineteenth century and with the prodigious advance of technological development, production increased by leaps and bounds and far outran the consumption requirements of local areas. Agricultural regions came to depend upon industrial centers as markets for their surplus products and as sources for needed manufactured goods; and, conversely, industrial centers became equally dependent upon agricultural regions. The interdependence of different regions within national boundaries, as in the United States, rapidly extended beyond national frontiers. Predominantly industrial countries, such as England, became increasingly dependent upon predominantly agricultural nations for market outlets and for imports of raw materials and foodstuffs. At the same

time predominantly agricultural nations became increasingly dependent upon foreign markets for the disposal of surpluses and upon imports of manufactured goods. Even nations with more or less balanced economies, such as the United States and France, on the one hand, produced surpluses of both agricultural and industrial goods for which outside markets had to be found; and, on the other hand, came to depend upon foreign raw materials, such as rubber and tin, which were not domestically available or upon other products which could be produced at home only at a prohibitive cost.

Thus, within a comparatively brief space of time the world has advanced from a civilization characterized in the main by primitive agricultural methods and by home and localized handicraft to one of highly specialized mass-production industries and large-scale efficient farming, whose very life is dependent upon markets for their products perhaps on the other side of the world. The separate nations of the eighteenth-century world, with methods of craftsmanship, ways of life, and underlying ideas alien each to the other, have become a closely knit organic unity—in very truth members of a world community—with the various producing and consuming areas as closely dependent upon each other as the parts of a single body.

Specialization and consequent increased production stimulated the growth of populations. In 1800, for example, Europe's population totaled 180 millions; today it is more than 500 millions. The interdependence of peoples based upon the vast and intricate network of foreign trade means but one thing. Unless the flow of trade continues free from excessive restriction, the life of nations will be disrupted, their standards of living will be forced down to disastrous levels, and untold suffering for millions of people will result.

No great industrial nation today is or can possibly be economically independent. Eco-

conomic self-sufficiency is a policy of retrogression and runs counter to the entire course of civilization's advance.

### III

As a result of this inescapable development of specialization of effort and of production, upon which, in truth, the forward movement of our civilization depends, each nation has increased its production of those commodities which, because of natural resources or climatic conditions or the aptitudes of its people, it can produce most advantageously or economically. In other words, nations directing their energies and their resources into those forms of production which yield them the largest rewards have come to be dependent upon foreign markets for the disposal of immense surpluses which they cannot profitably sell in home markets.

The United States, with its wide territorial extent, its diverse climates, its rich and varied natural resources, is today more nearly self-sufficient than any other great industrial nation. Yet even the United States could not by any possibility maintain its present standard of living on the basis of self-sufficiency. In 1929 the United States sold abroad more than half of its cotton crop, nearly a fifth of its wheat, two-fifths of its leaf tobacco, nearly half of its lard, a third of its rice, and almost half of its dried fruits, as well as enormous quantities of automobiles, agricultural and other machinery, motor fuel, typewriters, and the like.

Every loss of a foreign market means somewhere American factory wheels stopped or impoverished farmers. It means economic dislocation, men out of work, and markets swamped with unsalable goods. Strip our export industries of foreign markets and you drive millions of Americans out of the only forms of employment by which many of them can live,



and seriously affect the prosperity of millions of other Americans whose products they ordinarily buy.

Following the economic crash of 1929, in the face of dropping commodity prices, fluctuating currencies, and stimulated efforts on the part of many to dump their goods onto world markets for whatever they would bring, the nations of the world proceeded to barricade themselves through import restrictions of every variety against imports from other nations. As a result of these arbitrary and effective barriers, international trade by 1932 had dropped to a third of its former value. Between 1929 and 1933 the value of American exports fell from \$5,157,000,000 to \$1,647,000,000. The resulting repercussions throughout our domestic economy threatened disaster. American exports of cotton decreased in value by 48 percent, those of meat and packing-house products by 67 percent, those of machinery by 64 percent, and those of wheat and flour by 90 percent.

"Here in a nutshell," declared Secretary Wallace in his Annual Report for 1933, "is much of the explanation for the agricultural depression. Declining exports with mounting production naturally mean mounting surpluses. When export surpluses cannot be profitably sold, domestic sales show a loss too; blocked export outlets force supplies back into the home market and swamp it."

In the field of agriculture, if we should eliminate our foreign markets, speaking in round numbers, we should have to retire or find some other use for approximately 7,800,000 acres of wheat land, some 15,600,000 acres of cotton land, some 695,000 acres of tobacco land, and some 5,700,000 acres of corn land needed primarily for raising hogs. Taking into consideration the land required to produce other important agricultural exports, seed, and feed for work stock, we should have to retire or find some other use for more than 40 million acres of farm land.

How does this affect Colorado? We are clearly not on an export basis with respect, for instance, to cattle. Stockmen are dependent only on domestic markets.

Yet, quite apart from the other Colorado products whose sale is directly dependent upon foreign markets, Colorado has a very real stake in the maintenance of our export markets. Suppose, for instance, that the South loses its export markets for cotton and goes into stock raising or hog farming on an extensive and commercial scale? In other words, if our cotton plantations are turned into stock farms what becomes of the Colorado rancher?

What Colorado ranchers need are increased domestic markets. With foreign markets menaced because of mounting international trade barriers, how can American farmers producing supplies far beyond our present national needs find profitable markets for their surpluses? And how can farmers who market their entire crop in the United States secure larger home markets?

Manifestly the drive for higher agricultural tariffs is not a constructive solution. A comparatively few agricultural producers might for the time being profit from a heightened tariff; the vast majority would suffer. Normally we sell abroad far more than we buy of our leading agricultural staples, such as cotton, tobacco, wheat, rice, lard, and the like. Every time we have raised the general level of our tariffs, we have thereby sacrificed foreign markets for our surpluses in these and other commodities, partly through retaliatory action on the part of foreign nations and partly through reduced foreign purchasing power. Every time we have undertaken an upward revision of the tariff, it has been, in the main, industrial groups which were given special favors, ultimately at the cost of American agriculture and the country as a whole. In the face of the farmer's dire need for foreign out-

lets for his surpluses, the building of a high-tariff wall, which has the effect of barring both exports and imports, is manifestly no solution.

Clearly the only solution for our problem of surpluses that is really sound and permanent must embrace the building up of increased markets at home and abroad.

How practically can this be done?

Increased markets come through increased trade. If, as is true today, American producers find themselves unable to dispose of their entire product profitably in home markets because of shortage of purchasing power, and if excessive international trade barriers hinder or prevent the flow of American exports into foreign markets, obviously the most practical form of relief for the American producer is to stimulate economic activity by bargaining down the international trade barriers which hinder the flow of goods across national boundaries. The result of such increased economic activity will be increased purchasing power and enlarged markets both at home and abroad.

If, for instance, we can sell abroad more automobiles, automobile-factory workers in the United States can and will buy more meat, pork products, and woolen and cotton goods than they otherwise could. Moreover, automobile factories will be buying iron and other raw materials from every section of the country; and this in turn will mean increased pay rolls and increased purchasing power in every place from which they buy. Workmen in these places will in turn buy goods coming from still other sections of the country. Each sale of surplus products abroad thus creates a chain of economic transactions within the country, the total effect of which is to increase purchasing power beyond the volume represented by the original sale; and increased purchasing power is what makes prosperity. Trade increases employment, creates profits, and raises the gen-

eral level of well-being. Increased exports thus build up greatly increased domestic markets.

It is easy for false leaders to rally popular support by loudly demanding "100 per cent of the American market for the American farmer." The trouble is that the assumption that American markets can be enlarged for American producers by the embargo of foreign imports is profoundly untrue. The theory will not work.

Larger markets come through trade and not through the embargo of all imports. By blocking international exchange of goods and thus cutting down our foreign markets, a policy of restricting imports to an irreducible minimum cripples our great exporting producers, upon whose economic health and purchasing power domestic prosperity and domestic markets largely depend. If through skillfully formulated trade agreements the flow of trade can be stimulated and increased in both directions, economic activity throughout the country will increase in greater volume than that represented by the export-import transactions involved. Domestic producers—those who do not export as well as those who do—will be distinct gainers, not losers. This has been proved again and again by actual experience.

In 1929 imports into this country were valued at approximately  $4\frac{1}{2}$  billion dollars; the index number for production of manufactures (based on 1923–25 as 100), stood at 119; the employment index, at 106, the pay-roll index, at 110. The cash farm income of American farmers for that year was \$10,479,000,000. In 1932 this huge value of imports had fallen to  $1\frac{1}{3}$  billion dollars. While merchandise imports thus fell off, what was happening to our domestic markets as reflected in industrial activity and farm income? The production index for manufactures fell to 63; employment, to

66; pay rolls, to 47. American cash farm income dropped to \$4,328,000,000.

The truth is that domestic markets are expanded, not when foreign goods are excluded from the United States but when American wealth is created by a trade brisk because unhampered by artificial and unreasonable hindrances. Increased domestic markets come with active trade. The attainment of 100 percent of the American market for every domestic industry that aspires to it would mean killing foreign trade and hence destroying a dynamo which generates purchasing power. It would be ruinous not only to our great export industries but also, because it would spoil the domestic market as well, to the very industries that think to gain by it.

#### IV

These general fundamental principles seem so obviously true, so undeniable, that I suspect there will be few who take exception to them—in the abstract. It is when they come to be applied to concrete home or local products that the trouble begins. How about cattle?

Back in the fall of 1935 when we were negotiating the first Canadian trade agreement, you remember the dire prophecies which were widely circulated of sure disaster which would befall the cattle industry if the tariff on cattle should be touched. We did reduce the tariff. Well, what actually happened? What are the unvarnished facts?

In the Canadian trade agreement which came into force on January 1, 1936, the duty on beef cattle weighing 700 pounds or over was reduced from 3 to 2 cents a pound. This tariff reduction, however, was limited to an annual quota equal to three-quarters of 1 percent of our average annual slaughter of cattle and calves. This meant that no more than 156,000 head of cattle annually could come into the United States under the reduced rate from Canada, Mexico,



and all other countries combined. Did this concession prove injurious to our stockmen? Did it actually result in excessive imports of foreign cattle, or did it actually depress domestic-cattle prices? Let the record speak for itself.

Compared with domestic slaughter, imports since the agreement went into effect have been insignificant. In 1936 the total number of beef cattle weighing 700 pounds or over imported from all countries was 158,873 head, or 0.98 percent of the domestic slaughter of all cattle (except calves). In 1937 the corresponding ratio was 1.2 percent, and for 1938 it was 0.85 percent. And, of course, a substantial number of these imported cattle were purchased by farmers for feeding and did not go directly to slaughter. Moreover, owing to the exceptional conditions in this country some increase in imports would have occurred even if there had been no reduction of the duty. So it seems manifest that the imports of cattle following the Canadian trade agreement, in comparison with domestic production, could not be called excessive.

But did such imports as came in actually depress domestic prices? Again, let the record speak for itself.

Records of the past two decades show that the years of highest cattle prices have also been years of relatively large imports of cattle, and that the years in which imports have been smallest have been those when returns to American cattlemen were distressingly low. In 1933 the United States imported a total of only 63,329 (dutiabable) head of cattle, yet the average price of beef cattle of all grades (beef steers, Chicago market) dropped to \$5.42 per hundred weight for the year, and cash farm income from cattle and calves amounted to but 599 million dollars. In contrast, during 1935, with imports of 364,623 head, cattle prices averaged \$10.20 per hundredweight, and farm income from bee-

cattle and calves amounted to more than 1 billion dollars.

In 1936 cattle producers marketed about 15 percent more cattle (in terms of live weight) than they did in 1935 and were paid 36 million dollars more than in the previous year. In 1937, while cattle imports exceeded their 1936 volume, the price of all grades of beef steers at Chicago averaged \$11.47, the highest point since 1929. In the same year cash farm income from the sale of cattle and calves totaled \$1,217,000,000, the largest in 8 years. In 1938, however, when imports fell to approximately the same level as in 1936, the average price also declined—to \$9.44 per 100 pounds. In the first quarter of 1939 the price rose to \$10.27 per hundredweight, and imports exceeded the quarterly quota, with 3,929 head paying the full duty rate which prevailed before the Canadian agreement, as compared with a price of \$8.16 during the first quarter of 1938 with imports low—well under a quarter of the annual quota.

The truth of the matter is obvious. High domestic prices attract imports, and low domestic prices do not. Actual experience proves that imports are dependent upon the movement of prices and that the movement of domestic prices is governed by the domestic demand-and-supply situation with imports playing such an insignificant role on the supply side as to have practically no effect on prices.

Our actual experience under the earlier trade agreement with Canada showed that a further concession could safely be made in the second agreement without injury to our cattle industry. The new agreement reduces the duty to  $1\frac{1}{2}$  cents a pound, and the number of cattle which may be brought in from all countries under the reduced duty has been increased to 225,000 head. Even this increased quota, however, amounts only to about  $1\frac{1}{8}$  percent of our average annual slaughter of cattle (including calves) in the United States. The quota is fur-

ther restricted to 60,000 head a quarter. Thus, so far as the duty cut is concerned, the domestic industry is virtually assured during the life of the agreement of nearly the whole of the domestic market. It is of course far more important to the cattle rancher that he have 98 percent of a prosperous domestic market than 100 percent of a sadly shrunken one.

What cattle prices really depend upon is the relationship of domestic demand to supplies available; and domestic demand in turn depends upon purchasing power. Beef and veal—particularly the better grades—are foodstuffs for which consumers with reduced incomes may find cheaper substitutes. Conversely, the meat consumption of the average family increases markedly with a rise in purchasing power. The demand for meat, and particularly beef, therefore, is highly responsive to the rise and fall of domestic purchasing power, and consequently beef prices closely follow changes in consumer income or purchasing power.

As has already been explained, purchasing power rises with increased trade. The fact that Canadian imports from the United States rose from \$312,000,000 in 1935, the year before the trade agreement was signed, to \$369,000,000 in 1936, and to \$491,000,000 in 1937, and the fact that the percentage of increase in imports of trade-agreement items was substantially greater than in items on which no concession was obtained, indicate in a rough and general way how trade agreements practically benefit cattlemen and other American producers.

In short, increased income for cattlemen depends upon larger pay rolls for workers who will eat meat when they can afford it; and larger pay rolls wait upon increased trade. Increased trade both at home and abroad is the essential objective of the trade-agreements program. Thus, the program is fundamentally in the interest of the cattlemen of this coun-

try; and no amount of misrepresentation or misleading use of trade statistics can alter this basic fact.

## V

How far has the trade-agreements program borne actual fruit? Thus far agreements have been concluded with 20 countries, accounting for approximately 60 percent of our total foreign trade.

The magnitude of the trade covered by the program is indicated by the fact that the agreements with the United Kingdom and Canada alone cover more than 3,000 tariff items on which concessions were granted and obtained. Our total exports to and imports from the areas covered by those two agreements amounted in 1937 to \$2,025,322,000. Of this total, 68 percent, or \$1,377,422,000 worth of trade, is covered by the concessions given and received in the two agreements.

United States exports have nearly doubled since 1933, the year preceding enactment of the Trade Agreements Act. By no means all of the increase can be attributed to the agreements. But it is significant that exports to trade-agreement countries averaged 61.2 percent greater in 1937 and 1938 than our average exports to the same countries in 1934 and 1935, while our exports to nonagreement countries increased by only 37.9 percent.

In view of the fact that the total foreign trade carried on with each other and with other nations by the United States and by the countries with which we have concluded trade agreements constitutes almost three-fifths of the total international trade of the world, it is evident that the influence of the American program must be deep and far-reaching.

Once the stubborn reality of the vital interdependence of nations is clearly realized, the nature of the economic foundations required for a stable peace becomes clear. Today the

standards of living, if not the very lives, of entire populations are dependent upon a steady flow of raw materials and foodstuffs at prices unenhanced by prohibitive economic barriers, and also upon a steady sale of their own surplus production in foreign markets for a remunerative return.

Men will fight before they starve. They may also fight rather than see accustomed standards of living reduced to unbearable levels.

Whatever prevents trade depresses peoples' standards of living, increases the unemployment of the world, and retards civilization. Nations which are wise will adopt commercial policies which foster and promote international trade and thus further human welfare. Here lies the elemental strength of the American trade-agreements program. It leads away from economic conflict. It builds the kind of economic foundations upon which alone human progress and lasting world peace can rest.





# The Assistance Rendered by Government in the Promotion and Protection of American Foreign Trade

*Address by*

GEORGE S. MESSERSMITH

*Assistant Secretary of State*

*before the*

TWENTY-SIXTH NATIONAL  
FOREIGN TRADE CONVENTION

New York City, October 11, 1939



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# The Assistance Rendered by Government in the Promotion and Protection of American Foreign Trade

*Address by Assistant Secretary Messersmith*

THE assistance rendered by Government in the promotion and protection of American foreign trade is a part of the general program of our Government for the promotion and protection of the interests of our citizens at home and abroad—a fundamental purpose of government.

While practically every department and agency now included in the organization of our Government has some part to play in the promotion and protection of our domestic and foreign trade, it is the Departments of State, Commerce, and Agriculture which are primarily interested in the promotion of our foreign trade—which, gentlemen, is the field of your particular interest. As the first of these Departments to be organized under the Constitution, the Department of State has continuously, since the beginnings of our Government, played an important role in the promotion and protection of our foreign trade. Already before the adoption of the Constitution we had sent out a number of consuls to important seaports in Europe and elsewhere, whose primary function was to look after the interests of American shipping, which already in those days had reached respectable proportions. We began to send out, with Franklin and Adams, ministers to represent us before foreign governments and to negotiate treaties

for the protection and advancement of our trade. Although for a little over a century after this beginning our diplomatic and consular representatives were drawn very largely from political life, they had as a primary function, which they performed under the circumstances extraordinarily well, that of making reports on commercial and industrial and financial as well as on other aspects of the life at their posts of residence. This information was given only limited analysis and dissemination in this country, and we were so busy developing our own internal resources and building up various aspects of our national life that we had very little interest in foreign markets except for the disposal of a surplus of this or that product. Our foreign trade did not play a vital part in our national economy.

With the beginnings of the present century our interest in foreign markets became more intense as we had greater surpluses, principally agricultural, of which to dispose. Then came the rapid industrial development, which created surpluses in a new field—that of manufactured products. As an illustration of the change that has taken place in the character of our export trade since the beginning of the present century it is only necessary to point out that during the years 1896–1900 the average of agricultural exports from the United States comprised 66.2 percent of our total exports. This proportion of agricultural exports over the years has undergone a steady decrease until in 1936 they accounted for only 29.3 percent of our export trade. On the other hand, our exports of nonagricultural products, which in the years 1896 to 1900 averaged 33.8 percent of our total export trade, rose in 1936 to 70.7 percent of our total exports.

Our interest in foreign trade was first directed to the furtherance of our agricultural exports abroad, and the establishment of the Department of Agriculture in 1862 resulted in

constructive studies in this field being made. In 1888 an act of Congress was passed requiring the submission by the consular officers of the United States of monthly reports for the use of the Department of Agriculture relative to the character, condition, and yields of agricultural crops abroad. This information was disseminated by the Secretary of Agriculture in the monthly crop reports of his Department.

The increasing importance of our industrial establishment at the beginning of the present century led to the creation of a department of the Government which had, among other functions, that of fostering our export trade in manufactured goods. This agency of the Government was created by the act of February 14, 1903, establishing the Department of Commerce and Labor. In 1912 the Bureau of Foreign and Domestic Commerce was created. In the field of foreign trade it is the specific responsibility of these Departments, that is, of Agriculture and Commerce, to keep informed of developments in trade and agriculture in other countries so that they may in turn inform our people where they may find favorable markets for our surplus products. It is their specific responsibility to maintain contact with producing interests in this country, to digest and disseminate information on foreign market conditions to interested circles in this country, and to collaborate in a program for the promotion of our domestic trade and of our exports.

The setting up of the Departments of Commerce and of Agriculture within our Government did not in any way lessen the functions of the Department of State in the promotion and in the protection of our foreign trade. The protection of our foreign trade and of the interests of our citizens abroad has always been a primary function vested solely in the Department of State under the Constitution and our statutes. It is a function which could not be



exercised by any other department of Government because it must be exercised by that department which is charged with the responsibility for the conduct of our relations with other states and with the formulation of policy. The protection of our foreign trade, therefore, and of our shipping and of our nationals, which involved the negotiation of treaties and agreements with other governments, remained a primary function of the Department of State and of its agents abroad. In 1914 the Department of Commerce was authorized by statute to collect, through commercial attachés abroad, information on industrial and commercial conditions to supplement that which the diplomatic and consular agents of the Department of State had been furnishing for over a century. In 1930 the Department of Agriculture was authorized by statute to assign a certain number of agricultural attachés to our diplomatic missions abroad whose duty it would be to provide information on agricultural conditions to supplement that which had been and was being furnished by our diplomatic and consular officers. This service of Commerce abroad was expanded quite rapidly; that of the Department of Agriculture was kept within very reasonable limits. As was entirely natural, there developed a tendency to increase the number of commercial attachés and trade commissioners at posts where our officers were already stationed and charged with the duty of furnishing the same material for the information of our Government and people. This development took place during a period when our interest in foreign trade was growing, under pressure of increasing production at home. It took place during a period of relatively free exchange of goods, when trade barriers, with the exception of tariffs, were at a minimum and when there was practically no control on foreign exchange and international payments.

In the desire of Government to aid business our Federal representation abroad was some-

what overdeveloped and overexpanded. In the very nature of things the Department of State had to maintain its diplomatic and consular establishments in foreign capitals and strategic commercial centers. They were charged with functions in the conduct of our foreign relations and in the protection of our trade and nationals which could not be delegated to another department. These establishments, therefore, had to be maintained. Increasingly the agents of other departments of Government were being sent to the foreign field and functioning in the same posts where organizations of the Department of State had already long been in existence. The result was inevitably an overlapping of fields, a duplication of effort, a complicated approach to foreign governments, an embarrassment to foreign businessmen who received requests from agents of different departments of the Government for identical information, and a dissipation rather than a concentration of effort in behalf of our trade and nationals.

I have made no mention of the increasing cost which this unnecessarily complicated organization involved and that it was an organization in Government which business would not tolerate for itself.

Under the second Reorganization Plan submitted by the President to the Congress in the closing days of the last session it was proposed that the Foreign Services of the Departments of Commerce and of Agriculture should be merged with the Foreign Service of the Department of State and that the Department of State should be responsible, through its Foreign Service, for the work abroad. The fundamental purpose was, through the unification of the Services, to give Government and business a more effective instrument and organization in the foreign field. Although there were those even in informed business circles who viewed this change with some concern, it was recognized that the organization which the Government did have in the field was not in

accord with good business practice and that in view of the conditions which Government and business had to meet in every part of the world it was necessary that the foreign arms should be strengthened through this unified approach. The protection of trade had become a major function of Government. Trade-promotion efforts remained important but they no longer had the same effectiveness as in the decade preceding.

The changing character of the relationship between states and the introduction of new factors therein, and the changes within certain states in their economic, social, and political structure, have introduced new problems which have to be considered by Government and the private trader. While it is just as important today as it has been previously for our Government and for our business interests and for our farmers to be kept currently informed concerning developments in foreign markets, these reports in themselves no longer serve the purpose they once did. It is no longer only a question whether a purchaser, let us say, in France wishes to buy a certain product from us, or whether a seller here is prepared to ship that product to the customer in France. It is a question also whether the regulations of the French Government will permit this transaction to take place. It is no longer only tariff barriers which goods have to surmount, but it is the even more difficult barriers of trade restrictions, clearing agreements, quotas, and the like. It is no longer the simple problem whether A in New York can reach an agreement to sell B in Paris, but whether by agreements between the two countries a certain quantity of goods can pass over the barriers which have been erected. This involves the negotiation of agreements and treaties and of arrangements between governments which can be carried on only by the Department of State and its diplomatic and consular officers abroad. The individual trader finds

himself utterly helpless without the assistance of Government. The whole field, therefore, in which Government can operate for the protection and assistance of American trade has undergone fundamental changes, and the part which Government has to play in the assistance given to business and agriculture has become necessarily very much greater. The machinery which served us for this purpose in the foreign field, and to a degree at home, had necessarily to be adapted to meet these new conditions, and it was to meet these that the consolidation of the Foreign Services of our Government was planned. This, the trade-agreements program, and similar measures have been a part of that very earnest effort which Government has made to meet the new problems arising in our international relationships so that the interests of our trade and commerce may be adequately protected.

I will endeavor very briefly to set forth the organization and the machinery which Government has provided for the promotion and protection of our foreign trade under the set-up which is in operation today. The Department of State in Washington, and through its Foreign Service, is primarily responsible for the protection of our interests abroad and for the negotiation of agreements and treaties in the protection and furtherance of those interests. In carrying out this work it is aided by its Foreign Service, which is composed of some 800 career officers stationed at some 314 establishments in capitals and strategic trading centers throughout the world. The Foreign Service, in addition to its many other duties, is charged with the sole responsibility of gathering all the information required by other agencies of our Government in the fields of commercial and agricultural markets.

On the other hand, the Department of Commerce remains primarily charged with the function in this country of promoting the internal and foreign trade, and this part of the



work of that Department is centered in the Bureau of Foreign and Domestic Commerce, which is admirably organized into a series of commodity and technical divisions. In order to keep in touch with domestic markets and trade, the Bureau has district officers throughout the country, and in those important commercial centers in the country in which it has no district office it has close cooperative arrangements with Chambers of Commerce. The Department of Commerce, through the Bureau of Foreign and Domestic Commerce, is charged with the responsibility of analyzing and disseminating information on domestic and foreign markets.

The Department of Agriculture, through the Office of Foreign Agricultural Relations, is charged with the function of maintaining direct liaison between the Government and the agricultural interests of the country and with the analysis and dissemination in the United States of information gathered abroad by the Foreign Service relating to foreign agricultural markets. It has agents in various parts of the country and cooperative arrangements with agricultural organizations.

The delimitation, therefore, is one which is simple and businesslike. It is the Department of State, as the agency of Government responsible for the conduct of our foreign relations, which is solely responsible for the work abroad and the Departments of Commerce and Agriculture which are solely responsible for the analysis and dissemination in this country of information received from abroad.

As of July 1, 1939, the separate Foreign Services of Commerce and Agriculture ceased to exist and were consolidated into the Foreign Service of the Department of State. The officers of the Foreign Services of Commerce and Agriculture have been incorporated into the Foreign Service of the Department of State and hold commissions as Foreign Service officers. This consolidation involves the dis-



appearance abroad of the separate establishments which Commerce and Agriculture have maintained in foreign capitals and in some commercial centers and the physical incorporation and assimilation of their activities in the mission or in the consulate. I believe this should be hailed by business as a constructive step by Government. Up until 1924 the diplomatic and consular branches of our Government were entirely separate, and we maintained separate diplomatic and consular establishments in all capitals. Under the so-called Rogers Act of 1924 the diplomatic and consular services of the Department of State were united into one Foreign Service, and a program of physical consolidation of our consular and diplomatic establishments in capitals has been carried out. This step, which at the time was viewed with some concern by many interested in our foreign relations, has proved to be one of the most constructive steps undertaken by our Government in its endeavors to improve the machinery for the conduct of our foreign relations in the interest of our citizens. The consolidation of the Foreign Services of Commerce and of Agriculture into the Foreign Service of the Department of State and the consolidation and assimilation of the separate establishments of Commerce and Agriculture in certain capitals and other cities under Reorganization Plan No. 2 is therefore only a further step in that program of effective organization of the instrumentalities of Government abroad on which we have been making constant progress.

Although the Foreign Services of Commerce and of Agriculture have therefore ceased to exist since July 1, 1939, and the former officers of these Departments in the foreign field are now officers of the Department of State, the actual incorporation of the separate offices of these Departments abroad is being carried on slowly and with care. There will have to be a certain period of transition. It is, of course,

most important that the services to Government and to business should not suffer any interruption and the flow of reports needed by Government and business should continue, even in a war-torn world, and steps toward this end have already been taken in appropriate instructions to the Foreign Service establishments concerned.

This Government is, therefore, planning to set up in every capital a reporting unit as a part of its mission, which will be devoted to commercial, industrial, financial, and agricultural reporting. While this unit will be under the direct control and supervision of the ambassador or minister, just as are the other divisions or sections of the establishment of our Government in the capital, a Foreign Service officer of appropriate qualifications and rank will be designated as the officer in responsible charge of the reporting section. In view of the specialized experience of the commercial attachés in reporting on commercial and industrial problems and in meeting the needs of the Department of Commerce, it is the intention of the Department of State to designate as the Foreign Service officer in charge of these reporting units officers who have heretofore been commercial attachés in the service of the Department of Commerce. At those diplomatic missions to which an agricultural attaché is assigned it will be the policy of the Department of State to entrust the supervision of the agricultural reporting to officers who have formerly served as attachés for the Department of Agriculture. To this section will be assigned those officers of the staff who have shown special competence in reporting lines. The reporting section in the capital will be charged not only with the reporting from the mission but with the supervision and coordination of the reporting of the consular establishments in other cities in the country. In order that these reporting sections may be set up in the most effective manner possible we have asked the

chief of mission at every post, with the collaboration of the appropriate officers of his staff, to furnish us a report on the organization of his establishment as a whole and the proposed organization of the reporting section. These reports are now coming in, and it is our hope that within the course of several months more these organizations will be completed, and the amalgamation of the establishments in the field, as well as the amalgamation of the Services themselves, will be completed. As one who has been a servant of our Government in the field of the conduct of our foreign relations for a quarter of a century and as one who, as many of you here know, is very deeply interested in the protection and promotion of our foreign trade, I can give you the assurance that this program is being carried through on wise and on sound lines, and I have every confidence that when you make your next trip abroad and visit our establishments in capitals and in other strategic commercial centers you will find that the organization there existing for your service has been greatly strengthened and improved.

The Bureau of Foreign and Domestic Commerce in the Department of Commerce and the Office of Foreign Agricultural Relations in the Department of Agriculture remain primarily responsible in this country for the liaison between Government and business and agriculture. These Departments in this country will remain primarily responsible for the direction of the commercial and agricultural reporting activities of the Foreign Service officers of the Department of State. It is these Departments which will prepare the instructions on which the reporting activities of the officers of State abroad are based and the instructions which these Departments will forward through the Department of State to its officers abroad will be based on the needs of our business and agricultural interests as determined by them. Through the consolidation

of the Foreign Services and the establishment of these reporting units in our establishments abroad the facilities available to the Departments of Commerce and Agriculture in the foreign field and to our business and agricultural interests have been greatly strengthened. It may, I believe, be unhesitatingly stated that as a result of the consolidation in the Services and establishments abroad these Departments will be in a better position not only to have the information which is needed by Government but also that needed by the interests which the Government serves.

As the Departments of Commerce and Agriculture will remain primarily responsible for the analysis and dissemination of information on foreign markets and conditions in this country, reports on commercial, industrial, financial, and agricultural conditions abroad prepared by the Foreign Service establishments and officers of the Department of State will be forwarded to the Departments of Commerce and Agriculture for analysis and distribution. The actual work done in the field in the way of reports, world trade directory reports, trade opportunities, et cetera, will be augmented and the quality improved. Non-confidential reports will be transmitted from the foreign establishments of State directly to the Departments of Commerce and Agriculture. Information of a confidential character which cannot be given publicity will be furnished to the appropriate departments for such guarded use as the public interest permits.

Inquiries therefore concerning conditions in foreign markets for the sale of American industrial products should as heretofore be directed to the Bureau of Foreign and Domestic Commerce of the Department of Commerce. In like manner inquiries concerning the standing of foreign firms and requests for lists of foreign buyers should also be directed as heretofore to the Bureau of Foreign and Domestic Commerce. Similarly the inquiries concern-



ing foreign conditions affecting agricultural commodities and markets should initially be directed to the Office of Foreign Agricultural Relations of the Department of Agriculture. It is the belief of the Department of State that many inquiries can readily be answered by these Departments from information already submitted by the Foreign Service establishments abroad. In the event that the Departments of Agriculture and Commerce are unable to answer adequately the inquiries, appropriate instructions will be issued through the Department of State for reports from its Foreign Service establishments in the country or countries concerned.

You will be interested, I am sure, to know that the Departments of Commerce and of Agriculture are now engaged in the preparation of revised and up-to-date reporting schedules which will serve as the guide to the establishments of the Department of State in the field. There has been a tendency in the past to prescribe general reporting schedules applicable to all posts without sufficient regard to whether certain reports from certain posts have any value either to Government or to business. In order to increase the effectiveness of the reporting that is on a scheduled and regular basis the appropriate departments are now engaged in a careful study of every diplomatic and consular post so that instead of general instructions specific reporting schedules may be set up for every post in the Service. There is every reason to believe that through this very praiseworthy initiative the volume, as well as the quality, of the called-for reporting from the field offices will be improved. The commodity divisions in the Department of Commerce and the Office of Foreign Agricultural Relations of the Department of Agriculture will be in a position, through their publications and through the service which they give, to increase their usefulness to business and to agriculture.



To improve the practical character of the reporting that will be performed for the Departments of Agriculture and Commerce by our Foreign Service establishments, a system is being elaborated in the Departments of Agriculture and Commerce of providing the Department of State with current comments from the commodity and technical divisions of those Departments based upon their experience and contacts with American business and agricultural interests as to the sufficiency of the reporting work being performed as well as concrete suggestions for the improvement of reports in order that they may meet in the most adequate fashion the needs of our business and agricultural interests.

It should be emphasized that through the changes effective under Reorganization Plan No. 2 there is merely a delimitation of functions and no change in functions. The Department of State has become responsible for the work in the foreign field and the Departments of Commerce and Agriculture are responsible for the analysis and dissemination of information in this country.

In order to strengthen the liaison between the Department of State and the Departments of Commerce and Agriculture it is provided under Reorganization Plan No. 2 that an officer of the Departments of Commerce and of Agriculture shall be stationed in the Department of State. In accordance with this provision, a former agricultural attaché and an officer of Commerce who has seen service in the field have been designated for this important function. They have been given a room in the Department of State in the Commercial Office, where they maintain close contact with the various division chiefs in the Department of State and have access to all the material coming into the Department which could be of direct interest to the Departments of Commerce and Agriculture and to the respective interests which they serve. In this way and through the establishment of this

liaison it will, I believe, be possible to make available to Commerce and Agriculture an even greater amount of material from the foreign field than before, and it is hoped with even greater expedition. The quality of the men who have been chosen for this liaison function speaks well for the intention of the Departments concerned.

While the Department of State is solely responsible for the collection of the information in the field and serves as the agent abroad for the Departments of Commerce and Agriculture, and while the State Department remains solely responsible for the administration of its Foreign Service, it has been deemed advisable to provide, in Reorganization Plan No. 2, that a ranking officer of the Departments of Commerce and of Agriculture should sit on the Board of Foreign Service Personnel of the Department of State, as well as on the Board of Examiners and on the School Board. It is the Board of Foreign Service Personnel which advises the President and the Secretary on the making of appointments and assignments to the various posts in the Foreign Service. It is therefore arranged that whenever any assignment shall be made of a commercial or an agricultural attaché the designated officer of Commerce and of Agriculture shall sit on the Board of Foreign Service Personnel in order to assure that the Board may have the advice, counsel, and cooperation of the appropriate Department in the making of assignments in which they are directly interested.

As hereafter admission to the single Foreign Service of the Department of State is under the statute controlling in this respect, it has been deemed advisable that an officer of Commerce and of Agriculture should sit on the Board of Examiners of the Foreign Service whenever candidates are considered for admission. This will insure that in receiving new men into the Service the requirements of Commerce and of Agriculture will be appropriately considered.

The Department of State conducts a school within the Department, known as the Foreign Service Officers' Training School. A ranking officer of Commerce and of Agriculture will sit as a member of the School Board. The existence of this school and its nature are only too little known to our business people. It is sufficient to say here that after a candidate for the Foreign Service has been admitted to the Service and has served a probationary period in the field he is brought back to the Department for attendance at the Foreign Service Officers' Training School. To this school are brought appropriate officers of practically every interested department and agency of our Government as instructors. The young men who have passed the gauntlet of the written and the oral and the physical examination and who have served from a year to 18 months in one of our establishments abroad are then subjected to close scrutiny in the school, where they come under the eye not only of officers of the Department of State but of these other agencies of our Government. It is only after they have passed through the school that they have completed their probationary period and are admitted as full-fledged Foreign Service officers. I think you will agree that there are few businesses and few professions in which the neophytes are obliged to pass such careful tests. Our business and agricultural interests in this country have no need to fear that the men who are being brought into the Foreign Service do not have the necessary qualifications to serve as representatives of our interests abroad.

Moreover, in addition to this preliminary training, because the demands upon our officers are becoming so complex and in some respects so technical, the Department of State is pursuing the training of Foreign Service officers to an advanced degree. It is therefore contemplated that Foreign Service officers shall be assigned to the Departments of Commerce and

of Agriculture for periods of from 6 months to a year or more, just as it has been the practice heretofore to assign them to the Department of State. It is further planned that Foreign Service officers may, when it is deemed desirable, be assigned to the district offices or cooperative offices of Commerce and of Agriculture throughout the country, so that they may become thoroughly familiar with conditions throughout the country as a whole. You are undoubtedly familiar with the fact that it has been the practice of the Department of State for some years, with the approval of the Congress, to send selected officers to some of the important graduate schools in the country, such as those at Harvard, Princeton, Chicago, et cetera, for postgraduate work. These young men undergo an extensive period of training in economic and financial studies and are then prepared to take up special work at posts where this field is of primary importance. It is an application of the same principle which the Department of State has followed for many years in training officers in the Oriental and Near Eastern languages. We intend further to carry on this training by sending some of our Foreign Service officers with special capacities into some of our large banking institutions in order that they may get the technical and detailed knowledge of certain banking and exchange procedure which is so essential in their work at certain posts.

It is the intention of the Department of State to intensify the use in this country of Foreign Service officers on leave for trade details. A Foreign Service officer who returns to this country on his triennial leave naturally wishes to have an opportunity to see his family and friends. This is right and proper. It is, however, important that he should take this opportunity also of becoming more familiar with the life of his own country and of renewing contacts in business and other circles. The detailed knowledge which he has gained of



conditions at his post should be made available to the business and agricultural interests in this country. It is, therefore, our intention to see that Foreign Service officers shall increasingly be made available through the Departments of Commerce and Agriculture to trade and other organizations desiring to have them appear before them.

It may be safely and conservatively said that there has never been a time in our history when there has been a greater need for intelligent, active, and well-considered protection of our foreign trade or for prompt and accurate information adequately interpreted to the end that the interests of the American Government and its people may be properly safeguarded. It should give you confidence that these problems confronting Government, business, and agriculture have been given careful thought in the responsible Departments in Washington. I have endeavored to give you a factual account of what Government is attempting to do. It is a very inadequate picture because it is obviously impossible within the limits of your patience to go into any detail. May I voice the confidence that the efforts of the Bureau of Foreign and Domestic Commerce of the Department of Commerce and of the Office of Foreign Agricultural Relations of the Department of Agriculture, implemented by the efforts of the Department of State and its Foreign Service—all combined in harmonious and efficient activity—will not only satisfy your needs and expectations in present emergency conditions but will provide a solid foundation upon which to build in the future. I can assure you that the Department of State, as are the other Departments, is alive to its grave responsibilities in the maintenance, protection, and improvement of the position of the United States in international trade and that it will earnestly and unswervingly strive to that end.



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# War, Peace, and the American Farmer

*Address by*

**CORDELL HULL**

*Secretary of State*

*before the*

**AMERICAN FARM BUREAU  
FEDERATION**

**Chicago, December 5, 1939**



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# WAR, PEACE, AND THE AMERICAN FARMER

*Address by the Secretary of State*<sup>1</sup>

7M2Y 1942  
THIS annual meeting of the American Farm Bureau Federation is an appropriate occasion for examining every essential phase of our agricultural problem, in both its domestic and its international aspects. Both phases are of the utmost importance, and both should be given the fullest attention.

In the present world crisis, it is the first duty of every nation still at peace to be on the alert for its safety and security. To this end, in a country like ours, an informed and unified public opinion in support of a sound program of foreign policy was never more important. Tonight we may well consider, in the light of recent experience, some outstanding problems as they affect the future welfare of American farmers and of all other citizens as well.

Throughout the long period of tension which preceded the outbreak of present hostilities, our Government strove untiringly to strengthen the forces of peace. For many months it had been all too clear that, unless policies of peaceful and constructive cooperation could be made to prevail over policies of armed threat and conquest, the only possible outcome would be a major war.

Our efforts for peace failed. Today a large part of the world is engaged in armed conflict. With the same zeal with which we strove to avert this catastrophe, our Government is now seeking to provide every possible assurance against our being drawn into it. The recently enacted neutrality legislation and other measures which have been and are being taken

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<sup>1</sup> Delivered on the occasion of the banquet held in connection with the annual meeting of the American Farm Bureau Federation and broadcast over the blue network of the National Broadcasting Company.

testify to this fact. This country should not, and must not, be drawn into war.

But even though we remain at peace, we cannot insulate ourselves from the economic and other effects of a major war anywhere in the world. Already we have begun to feel the impacts of this conflict. Wartime controls, with their disrupting effects, have replaced the normal processes of trade with areas where hostilities are in progress.

As the warring nations readjust their import trade increasingly to war necessities, both agriculture and industry in this country feel the effects. Some branches of industry experience the temporary stimulus of war demand. On the other hand, tobacco growers, fruit growers, and other producers of farm products not regarded as strictly essential to the prosecution of war are suddenly cut off from important markets. Many kinds of manufactured exports likewise feel the weight of such restrictions.

For the duration of the war we must be prepared to accept as unavoidable many of these temporary disarrangements. Nations at war give their first concern to military purposes. Naturally, this Government is striving to keep foreign markets for our products open and to secure a relaxation of restrictions newly imposed. But there are broader and more far-reaching problems involved. Temporary difficulties must not blind us to the importance of following policies which will both cushion the shock of current developments and enable us to grapple successfully with the colossal problems of the future.

In the welter of disruptive forces unleashed by the war, it is vital that we omit no step which will help to keep this country united and strong. One of the foundation stones for such unity and strength is a sound and prosperous agriculture. In February 1938, before the National Farm Institute, at Des Moines, I said:

"I believe it to be vital for the Nation's stability and security that our farming popula-

tion be adequate in proportion to other parts of the population. A wise policy for the Nation requires that the conditions under which those engaged in agriculture live and labor shall be just and fair, and that life on the farm should be attractive and adequately rewarding."

No one will question the soundness of this objective. The only problem is how best to promote it.

To attain that objective one of the basic facts that must be recognized is that the prosperity of agriculture in this country is tied in with that of the Nation as a whole. Upswings and downswings in factory pay rolls are reflected in rising and falling demand in our cities for products of the farm, just as ups and downs in farm prosperity influence factory pay rolls and thus affect the incomes and purchasing power of city people.

Second, full and stable prosperity for our Nation is definitely linked to economic conditions in the rest of the world. Fullest promotion by domestic measures of our national economic welfare is, of course, always essential. But it is idle to expect a satisfactory degree of sustained economic recovery in this country while the buying power of other countries is reduced to a mere fraction of what it ought to be. When we cannot sell abroad our great exportable surpluses of farm and factory products, agriculture, industry and labor—all three—must pay a heavy penalty. Agriculture suffers from the loss of its foreign markets. It also suffers from the shrinkage in its home market that takes place when great manufacturing industries find their export outlets curtailed, with resulting unemployment and reduced purchasing power in our cities for products of the farm.

In brief, the thing that I want strongly to emphasize is that the prosperity of agriculture and of the whole Nation is closely tied up with the presence or absence of a healthy flow of



trade between nations. The existence of actual military warfare abroad, with its disrupting effects upon production, trade, and finance, does not in any sense change the fundamentals; it only aggravates the problem and delays the solution.

On this subject of foreign trade, unless every farmer and every other American citizen thoroughly understands the lesson of what happened after the World War, we shall merely repeat the disastrous experience of that period.

By the close of that war the whole international economic machine had been thrown violently out of gear. Normal channels of trade and finance had been disrupted. Everywhere the condition was one of serious maladjustment and dislocation in both agriculture and industry.

The obvious need was for the restoration of normal and healthy trade relations among nations as the only possible means of establishing secure foundations for enduring peace and for the economic well-being of the peoples of all nations. But that is exactly what did *not* happen. Instead, the world pressed headlong down the perilous road of narrow nationalism. On all sides there grew up a vast network of trade restrictions and other impediments to normal economic intercourse imposed on the mistaken theory that such extreme measures would bring greater prosperity. Instead, new dislocations were added to old. Agricultural and other surpluses piled up in some parts of the world, with no way to sell them. At the same time, other regions were living on short rations, their purchasing power seriously reduced by inability to sell their industrial and other surpluses to foreign lands.

Finally, at the end of the twenties, came the sharp descent into the severest depression the world has ever known—followed by a further intensification of the very same policies of narrow nationalism which had done so much to bring on the general economic collapse. Every

conceivable device for restricting trade was brought into play. Higher tariffs, quotas, import licenses, exchange control, barter arrangements, currency manipulation, and many other devices increasingly choked off international trade.

Grave mistakes of policy on the part of the United States, as well as of other countries, contributed greatly during the twenties to the impairment of the whole world economic situation, culminating in the general break-down at the end of that decade.

We refused to face the realities of the situation. We raised our tariff sharply and indiscriminately and thus made it impossible for other countries to keep up their purchases of our farm and other products and at the same time make payments on their debts to us. We then tried to escape the consequences by loaning the money to pay for our own exports. Finally, after announcing in 1928 our intention of once more raising our tariff, we capped the climax of an ever-narrowing economic policy by putting on our own statute books in 1930 one of the most ill-timed and costly pieces of legislation in the entire history of this country—the Hawley-Smoot Act.

What followed is painful history. Foreign countries retaliated by drastically increasing their tariffs and other trade barriers against our products. Our exports of farm and other products slumped heavily. The claims of those who had blandly asserted that farmers and others would be assured permanent prosperity by this embargo tariff legislation were at once exposed to the relentless test of facts. Surpluses of farm and other products were dammed up; prices collapsed; factories were closed; many millions were thrown out of employment; and agriculture was in a state of bankruptcy.

It was to cope with this extreme economic emergency that Congress enacted the trade-agreements program. This program, while re-

taining thoroughly ample safeguards for our domestic producers, is designed to reopen the clogged-up channels of mutually beneficial trade between our country and other countries. An emergency program to deal with emergency conditions, the trade-agreement policy is the only practicable method open to us for the purpose in view. The only suggestions seriously put forward today by opponents of the program are poorly disguised maneuvers to return this country to the Hawley-Smoot embargo policy or its equivalent.

Solid progress has been made during the past 5 years in the operation of the trade-agreements program. We have negotiated agreements with countries that account for practically three-fifths of our total foreign trade. Valuable benefits, through safeguarding or improving our access to foreign markets, have been secured for literally hundreds of products, both agricultural and nonagricultural. On farm products these benefits (including guaranties of continued duty-free entry of certain items, notably cotton) cover nearly half (47 percent) of our total exports of farm products to all countries. They affect about three-fourths of our total exports of farm products to the trade-agreement countries themselves.

A few illustrations will be helpful.

After a period of less-than-average supplies, the corn-hog industry is again becoming heavily dependent upon export outlets. Reduction of barriers against our exports of pork, ham, or bacon has been obtained in 10 countries. On lard nine countries have reduced barriers, while three others have agreed not to impose new restrictions. Of special significance is the removal in the agreement with Great Britain of a burdensome preferential duty on lard, originally imposed in retaliation for some of the superprotectionist provisions of the Hawley-Smoot tariff.

On grains and grain products, foreign-trade barriers have been lowered in most of the

agreements now in effect. Great Britain has removed its discriminatory duty on wheat, also originally imposed in retaliation for our action under the Hawley-Smoot tariff, and has agreed to keep corn on the free list.

Fruits, vegetables, and a long list of other farm products have also materially benefited from the concessions obtained in the trade agreements.

That these benefits have been helpful in disposing of our agricultural surpluses is sufficiently indicated by the fact that, between 1935 and 1938, our exports of farm products to trade-agreement countries increased by nearly 50 percent, whereas to other countries they did not increase at all, but declined slightly. In addition, of course, the benefits obtained for exports of nonfarm products have created employment in our cities and hence a better domestic market for farm and other products.

We have thus gone far toward safeguarding and reopening important foreign markets for our farm and other products. The agreements which we have negotiated are standing us in good stead now, at a time when, as a result of the war, our exports are faced with severe new trade restrictions in many countries. They provide an effective means of insuring better access to these markets than we would otherwise be able to get.

The work of rebuilding international trade on a sound basis, thus begun and substantially carried forward, has been, for the present, rendered more difficult by the outbreak of a new major war. The scope of operation of the trade-agreements program in the immediate future will, of course, be restricted by war conditions. But that is no reason, as some contend, for abandoning the entire program for the duration of the war. These counsels of despair and defeat overlook the all-important fact that the chances of sound economic restoration after the war, in which we shall have a vital interest, will be almost nonexistent if we now abandon



our work in behalf of sound trade policies and cease our efforts to induce other nations to keep alive the imperative need for such policies. This is no time to strip ourselves of necessary means of action.

If there is anything certain in this world, it is that, after present hostilities come to an end, there will be an even more desperate need than there was in recent years for vigorous action designed to restore and promote healthy and mutually beneficial trade among nations. The fact that, during the past 5 years, 21 nations showed their willingness, by entering into reciprocal trade agreements with us, to modify their trade policies in a more liberal direction, offers a solid basis for the hope that, with peace regained, there will be a good opportunity for completing the work of trade restoration. That precious opportunity will be lost if we, who have in the recent past taken a position of leadership in this vital work, should now reverse our own policy and turn our face straight back toward suicidal economic nationalism, with its Hawley-Smoot embargoes.

It is in all these implications that the trade-agreements program should be considered by our people. Much of the propaganda that is being poured out upon the farmer brushes aside lightly not only the inherent soundness of the program itself in its relation to domestic prosperity, but also its decisive significance in connection with the whole problem of the restoration and maintenance of enduring peace and of general economic reconstruction and progress. The central claim of such propagandists is that the trade-agreements program has caused an increase in our imports of agricultural, or so-called agricultural, products, and that this has hurt agriculture.

Let me say to you in perfectly plain language that if there were the slightest suspicion in my own mind that farmers in this country were being hurt, rather than helped, by the trade-agreements program, I would be the first to



favor dropping it. But the facts tell a different story.

Let us look at the latest figures. During the first 9 months of 1939 we imported into this country \$795,000,000 worth of agricultural, or so-called agricultural, products. Those who use our agricultural import figures as a basis for attack on the trade-agreements program would have the country believe that these imports mean that American farmers have lost that much of their home market. Never was a more palpable and insidious falsehood perpetrated on our farm people.

What are these imports of agricultural products that you hear so much about? None of the self-styled friends of the farmer will ever tell you the fact that two-thirds of what we brought in during the first 9 months of 1939, or about \$530,000,000, were products which even the authors of the Hawley-Smoot tariff considered so incapable of displacing our own farm production and so indispensable for our people that they were left on the free list in the Tariff Act of 1930. Among these were such products as coffee, rubber, raw silk, bananas, cocoa beans, tea, carpet wool, and sisal, et cetera, which we do not produce at all in this country. What farmer was hurt by the \$121,000,000 of rubber we brought in during this period? Or by the \$101,000,000 of coffee? Or the \$75,000,000 of raw silk? Or the \$22,000,000 of bananas, the \$20,000,000 of cocoa beans, the \$19,000,000 of carpet wool, or the \$15,000,000 of tea, and so on?

The products comprised in the remaining third of the total agricultural imports are predominantly of the two types: First, commodities of which we do not produce enough for our domestic requirements, notwithstanding that we have for years imposed—and still today impose—high tariffs on most of them; and second, products—most of them also subject to high duties—which we import because of special quality or use, or differences in marketing season, or other special considerations. These im-

ports do not displace—they *supplement*—our deficient domestic supplies. Without hurting our domestic producers, these imports are also necessary for the economic well-being of our Nation and the comfort of our people.

Those who are responsible for the maneuver of laying so much unwarranted stress on farm imports claim that these limited importations are materially hurtful to American agriculture. Where is their evidence? If farmers had been hurt, it would be reflected in farm income. That is the real test for every farmer.

By 1932, after 2½ years of Hawley-Smoot tariff embargoes, farm cash income had fallen to 4.6 billion dollars. By 1938, after 4 years of trade-agreement policy, it had risen to 7.5 billions, excluding benefit payments. Were farmers hurt by this 3-billion increase in farm income?

The most reckless claims of injury have been made regarding the dairy and cattle industries. Yet the fact is that the income of the dairy industry—which had declined, under tariff embargoes, from \$1,844,000,000 in 1929 to \$991,000,000 in 1932—rose, under our trade program, to \$1,398,000,000 in 1938. Does this indicate injury? The income of the cattle industry—which, under tariff embargoes, fell from \$1,495,000,000 in 1929 to \$620,000,000 in 1932—rose, under our trade program, to \$1,144,000,000 in 1938. Does this indicate ruin?

And bear in mind that even in the period of our heaviest dairy importations, back in 1924–29, imports of dairy products never exceeded 1½ percent of our domestic production. In 1938 the imports were only ½ of 1 percent. Bear in mind, too, that the cattleman has today, as he has always had, 95 to 98 percent of the home market.

What about farm prices? None of us can ever forget how prices crashed between 1929 and 1932, when the Hawley-Smoot embargoes ruled the day. But let us not forget either how they have come back in recent years.

What farmer was hurt by the increase in the average farm price of wheat from 39 cents a bushel in 1932 to 66 cents in 1938? What was injurious about the increase in the farm price of corn from 28 cents in 1932 to 49 cents in 1938? What farmer was aggrieved by the increase in hog prices from \$3.34 a hundred in 1932 to \$7.74 in 1938? What cattleman suffered from the rise of cattle prices from \$4.25 a hundred to \$6.53 a hundred? What dairyman was hurt by the increase of butterfat prices from 17.9 cents a pound to 26.3 cents? What wool grower found reason to complain over the rise of wool prices from 8.6 cents a pound to 19.1 cents? On most of these products prices today are higher than they were a year ago. Hog prices are off at present, but are still nearly double the 1932 figure.

Not for one moment would I want to suggest that conditions for farmers today are nearly as good as they ought to be. First, last, and all of the time, I am for improving them. But I know that agricultural conditions cannot be satisfactorily improved without the expansion of both domestic and foreign markets. That is precisely why I have faith in the effectiveness of the trade-agreements program, which is the best method in the continuing emergency for accomplishing this result.

If experience is any teacher at all, it should have taught every one of us by now that the notion that farmers can be saved by embargo tariffs is a snare and a delusion. It is politically impossible to grant tariff embargoes to some groups and withhold them from others. When such embargoes are granted generally, the result, as was the case in 1930-32, is a collapse of our foreign trade, vanishing foreign markets for our farm and other surpluses, a prostrate agriculture, and a prostrate nation.

It is not a question of giving the American market to the American farmer or taking it away from him. He has already got practically all of the American market, as he has always had it, except—as I have said—for a

few types of products that we do not grow in sufficient quantities for our own needs even though we impose high tariffs on most of them. Nobody proposes to adjust any tariff rate in such a way as to diminish the sales of American farm products in the home market. The sole aim is, rather, to increase such sales in both the domestic and the foreign markets.

We all know that the home market just *will not* absorb our large surpluses of cotton, corn and pork products, tobacco, wheat, and fruits of various kinds, not to mention other products. We must either find outlets abroad or else see these surpluses back up on us until we are overwhelmed by them.

The contrast between our present trade policy, which contemplates an expansion of both the domestic and foreign markets for farm products, and the embargo policy, which shrinks both of these markets, has been admirably stated by Secretary Wallace, as follows:

“By all means, let us make the most of the home market. But I want you to think seriously about the fact that farmers have more to lose through nationalistic policies than any other group. In the present year, 1936, farmers are cultivating probably 35 to 45 million acres that are going to produce things which will be sold abroad. The most additional land they could use by cutting out imports would be perhaps 10 million acres. It just wouldn't be good sense to risk having to leave 35 or 45 million acres idle in order to try to gain a market for 10 million acres. I don't think farmers are foolish enough to trade dollars for quarters, no matter how strong the pressure may be by those who are busy grinding their own axes.”

To sum up, the case for trade agreements comes down to the simple proposition that, by reducing excessive and unreasonable tariff barriers and inducing other countries to do likewise, thus permitting a healthy growth of mutually advantageous trade, we greatly enlarge



the purchasing power and the market outlets for our farm and other surpluses, both at home and abroad, to the benefit of American agriculture, American industry, and American labor.

The best test of the trade-agreements policy and its administration is to be found in the 22 agreements already negotiated. No tariff adjustments have been made in our trade agreements without the utmost care to see to it that the branches of production concerned, in agriculture or in industry, are amply safeguarded. What warrant is there for assuming that whatever tariff adjustments may be made in the future will not be as carefully considered and as adequately safeguarded as those made in agreements already negotiated?

The record of achievement under the trade-agreements program is an open book. I invite any person to show a single instance of general tariff readjustment either upward or downward, in the entire fiscal history of the Nation, wherein there has been exercised as much impartiality, care, and accuracy as to facts as has uniformly characterized the negotiation of our 22 trade agreements—or any more solicitude for the welfare of agriculture, labor, business, and the population of the country in its entirety.

Full and stable prosperity for our Nation can be achieved only in a world which is at peace. War and threat of war, even when we succeed in keeping ourselves free from embroilment in actual hostilities, imposes upon us a heavy burden of expenditure for armament and an even heavier burden of economic dislocation. This burden of economic maladjustment persists long after the guns of war are stilled. And hope of enduring peace among nations is little short of an illusion unless there can be provided for it a solid foundation of economic well-being for all nations. For this, healthy and sound international trade relations are indispensable.



In the difficult days which lie ahead, the greatest of all issues will be whether or not the world will be reconstructed along lines of economic security and of firmly established order under law, which will make unthinkable a repetition of conditions of international lawlessness and of economic chaos such as we have witnessed in recent years. In the resolving of this issue, the weight of our country's influence may well prove to be decisive. By adhering to the trade policy which we now follow, we can throw our influence on the side of economic progress and of peace and order—to our own immense benefit. Were we to abandon this policy, under the pressure of narrow and short-sighted attitudes on the part of some of our people, we would render infinitely more difficult the process of building an orderly and prosperous world and would thus inflict upon ourselves an incalculable injury.

This is a truly national problem. With so much at stake in the dangerous world of today, a united public opinion in support of the type of trade policy we have so far pursued has never been so essential to our country's welfare. A nation cannot prosper in a disordered world any more than an individual or a group can prosper within a nation when the country as a whole is in the throes of destructive chaos. Upon each and every one of us rests the responsibility for the choice of the course of action which we as a people shall pursue.



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# The Reciprocal- Trade-Agreements Program of the United States

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## The Reciprocal- Trade-Agreements Program of the United States

**T**HE reciprocal-trade-agreements program is based upon the Trade Agreements Act of June 12, 1934, which has been extended on two occasions for additional 3-year periods, from June 12, 1937, and from June 12, 1940.

### WHY IT WAS ADOPTED

*Purpose.*—To increase foreign markets for products of the United States is the primary purpose of the trade-agreements program. This purpose is sought through reciprocal adjustment of excessive trade barriers.

*Necessity.*—Normally the United States can and does produce more of a great number of farm and nonfarm products than can be sold in the American market at remunerative prices. Surpluses of such production must either (1) be sold in other countries, (2) pile up in unmarketable carry-overs in this country, or (3) be sold by producers at ruinously low prices. Unless exported, such surpluses force down prices, create unemployment, and reduce the incomes of American producers.

Trade between nations declined sharply after 1929, largely because most nations, including the United States, set up excessive barriers to imports from other countries. By thus making it difficult for its people to buy things they needed and desired from other countries, each country made it difficult for its own producers to sell their exportable surpluses in other countries.

As world trade diminished, employment and incomes fell, and the world-wide economic de-

pression was deepened and prolonged. Between 1929 and 1932 United States foreign trade dropped 69 percent, national income 50 percent, and gross farm income 55 percent.

*Benefits of Foreign Trade.*—Sound expansion of United States trade with foreign countries—

1. Directly benefits American producers whose goods are exported.

2. Improves domestic markets. Any American producer, farmer or nonfarmer, whose goods find a foreign market becomes a better customer for the goods of other American producers.

3. Increases the supplies available to American consumers at reasonable prices, of goods produced to better advantage in other countries or not produced in sufficient quantities or at all in the United States.

Foreign trade necessarily is two-way trade. This country cannot have the benefit of export trade unless it imports goods from other countries. The citizens of foreign countries can buy products only to the extent that they can acquire dollars to pay for them, and the only way they can acquire dollars is through the sale in this country of their products (including gold and silver) and services or by borrowing. Loans, even if available to them, merely postpone for a time the ultimate necessity for payment in the form of commodities or services.

### HOW THE PROGRAM WORKS

Direct and separate negotiations with other countries is the method prescribed by the Trade Agreements Act for reducing excessive barriers to foreign trade. This method was chosen as more practicable and effective than general downward revision of the United States tariff alone. The latter method, even if feasible, would not insure the reciprocal reduction of foreign tariffs and other barriers against our export trade.

*Method.*—Specifically, the act empowers the President, in order to obtain concessions from



other countries on American products, to modify excessive United States tariff rates on foreign products; to bind existing tariff rates against increase; or to guarantee continued entry free of duty of products on the free list.

The act does *not* empower the President to modify tariff rates except under a trade agreement; it does *not* empower him to reduce the duty on any foreign product under trade agreements by more than 50 percent or to transfer any item from the dutiable list to the free list.

It *does* require trade agreements to be concluded only after the President has sought the advice of the Departments of State, Agriculture, and Commerce, the Tariff Commission, and other appropriate agencies of the Government, and only after public notice and full opportunity for presentation of information and views by any interested person.

All Government agencies concerned with foreign commerce cooperate in studying all pertinent facts and views before any trade agreement is concluded. The trade-agreement activities of the various Departments and agencies are carried on by means of interdepartmental committees and are coordinated in the Department of State.

*Concessions Obtained.*—The United States, in negotiating a trade agreement, asks a foreign country to lower its excessive tariff rates on our typical export products or to liberalize quotas or exchange restrictions on American products.

Such concessions and assurances against adverse changes have been obtained from important foreign customers of the United States with regard to hundreds of American products, both agricultural and nonagricultural, comprising nearly one-third of all United States exports.

*Concessions Granted.*—Under trade agreements, the United States has agreed to tariff reductions or to the “binding” of existing tariffs

or free entry in the case of imported products needed or desired by American industry or American consumers. Concessions on imported commodities similar to those produced in the United States are granted by this country only after particularly exhaustive study indicates that such concessions can be made in the national interest without serious injury to the American producers concerned. When it appears necessary, tariff modifications on such products are limited by quotas which set upper limits on the imports permitted to enter at the reduced tariff rates or by restriction of tariff reductions to seasons when competing American products are not marketed in quantities sufficient to satisfy the demand.

*"Most-Favored-Nation" Clause.*—The traditional trade policy of the United States is not to discriminate between foreign nations, but to extend equality of tariff treatment to all who do not discriminate against the trade of this country. This policy is embodied in the Trade Agreements Act. Under it a concession on a given product in a trade agreement with a foreign nation (other than Cuba) applies also to the same product from any third nation, unless that third nation is found to discriminate against the products of the United States. The same treatment for United States products is naturally required of the other party to the trade agreement.

This policy of fair treatment on a reciprocal basis pays large dividends in dollars and cents to American exporters of agricultural and factory products who are thus protected against foreign tariff and other discriminations. It also avoids international ill feeling and thus promotes peaceful commercial relations.

#### WHAT THE PROGRAM HAS ACCOMPLISHED

Under the Trade Agreements Act the United States has concluded agreements with 21 foreign countries. These countries, in the order in

which the agreements were signed, are: Cuba, Belgium, Haiti, Sweden, Brazil, Canada, the Netherlands, Switzerland, Honduras, Colombia, France and colonies, Guatemala, Nicaragua,<sup>1</sup> Finland, El Salvador, Costa Rica, Czechoslovakia,<sup>2</sup> Ecuador, the United Kingdom including Newfoundland and the British Colonial Empire, Turkey, and Venezuela. A second agreement with Canada, which entered into effect January 1, 1939, replaced the first agreement with that country, which had been in effect since January 1, 1936. In addition, a supplementary trade agreement has been negotiated with Canada and another with Cuba.

About 60 percent of the foreign trade of the United States is carried on with the countries with which reciprocal concessions are in effect in 19 trade agreements. The United Kingdom and Canada are, respectively, the largest and the second largest customers for American exportable surpluses.

*Trade Increases.*—The trade-agreements program has contributed in significant degree to increases in United States international commerce since the inauguration of the program. Of course, a number of other factors also have influenced both the volume and the nature of that trade. Among these factors, some of which have tended to enlarge and others to diminish international trade, have been wide fluctuations in agricultural production, both here and abroad; wars and preparations for war; and changes in general industrial and economic activity due to causes unrelated to foreign trade.

During the 2-year period 1934–35, United States total foreign trade averaged 4.1 billion dollars a year. In the 2-year period 1938–39 the average was 5.3 billion dollars.

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<sup>1</sup>The reciprocal duty concessions and certain provisions of the agreement with Nicaragua ceased to be effective on March 10, 1938.

<sup>2</sup>The operation of the trade agreement with Czechoslovakia was suspended, effective April 22, 1939.

That the trade-agreements program has contributed to the increase in our foreign trade may be seen from a comparison of United States trade with agreement and nonagreement countries.

In the 2-year period 1938-39, when there were 16 trade agreements in effect throughout the entire period, United States exports to the countries covered by these agreements averaged 62.8 percent greater than in 1934-35, when only 1 agreement was in force for a year or more, while our exports to all other countries increased by 31.2 percent. In addition to the 16 agreements in effect throughout 1938-39, 2 agreements, with the United Kingdom and with Ecuador, were in effect throughout all of 1939. Our exports to the countries covered by the 18 agreements in effect throughout 1939 averaged 50.5 percent greater in 1938-39 than in 1934-35, while our exports to all other countries increased by only 31.7 percent.

Our imports from the 16 agreement countries averaged 21.6 percent greater in 1938-39 than in 1934-35, while our imports from other countries averaged 11.1 percent greater. Our imports from the countries covered by the 18 agreements increased by 17.8 percent and from all other countries by 12.5 percent during the same period.

The trend in trade with agreement and non-agreement countries in the 2-year period 1937-38, as compared with 1934-35, was somewhat similar. The increase in United States exports to the trade-agreement group of countries was greater than to the nonagreement group. However, in the case of imports, the increase in our trade with the nonagreement group was slightly greater than with the agreement group of countries because of the influence of certain factors not connected with the trade-agreements program, such as the severe drought of 1936 in this country.

These statistical comparisons reinforce the common-sense conclusion that the reduction of

excessive tariffs and other barriers to the exchange of our exportable surpluses for those of other nations tends to support and enlarge the volume of our international commerce.

## THE WAR AND THE PROGRAM

*Effects of War.*—War-time trade controls and restrictions have been imposed by belligerent countries for the purpose of assisting them in their war effort and by certain nonbelligerent countries because of the dislocating effects of war on their trade. These measures have had adverse effects upon our export trade in certain products, particularly those not considered essential by the belligerent countries. On the other hand, our exports of certain other products, particularly those considered essential for war purposes, have been stimulated. Although specific provisions of our trade agreements with a number of belligerent countries have been suspended temporarily as a result of war, the existence of the agreements helps to strengthen the position of the Government of the United States in its continuing efforts to mitigate as much as possible the adverse effects of war-time measures on American trade.

*After the War.*—Economic insecurity and depression, caused in part by excessive trade barriers and discriminatory trade policies, have been among the major causes of most wars, including the one now going on in Europe. The tragic events now transpiring bear grim testimony to the need for keeping alive the liberal principles upon which the trade-agreements program is based. Such principles will be sorely needed to guide the nations in the task of economic reconstruction when the war has ended. If, in the future, international friction, hostilities, and war are to be avoided, these principles must prevail over the policies of extreme tariff protection and trade discriminations.





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# The Need of a Sound Commercial Policy

Address by

**HENRY F. GRADY**

*Assistant Secretary of State*

before the

CHAMBER OF COMMERCE  
SAINT PETERSBURG, FLORIDA

OCTOBER 16, 1940

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## The Need of a Sound Commercial Policy

UNTIL very recently it appeared that the world had forgotten the nature and the purpose of trade.

The trend in commercial policy for the past two decades has had, for the most part, little regard for the bearing of international trade on national welfare. This was true also of our trade policy until the present administration came into being in 1933 and established in the following year the trade-agreements program. Our foreign trade before that time had been looked upon more or less as a sideline activity of the Nation's business and as a legitimate field for exploitation by special interests. Before the advent of the present administration the Government's relation to foreign trade was determined in a large part by considerations of gain for particular interests rather than by a sound regard for the standard of living of the American people as a whole. Our foreign-trade policy at that time was not directed principally toward making available to American workers and farmers more of the good things of life. Through its trade-promotion activities abroad, the Government sought to encourage the shipments of goods out of the country and, through its policy of high protectionism, sought to discourage the shipments of goods into the country, leaving for the consumption of the American people a smaller volume of goods than that which they themselves produced.

Exports are, of course, important and should be encouraged. The reason they are impor-

tant, however, is because they can be exchanged for imports and because the exchange of exports, which we can produce relatively cheaply, for imports, which we are not as well adapted to produce or cannot produce at all, means that we as a nation are able to obtain for consumption more goods than would otherwise be possible and also certain essential goods which otherwise would not be available.

On the other hand, imports are important, not only because they supply consumption needs, but also because they provide our foreign customers with means for paying for our exports and thus give employment in industries in this country whose output exceeds domestic demands.

Thus it may be seen that the benefits of foreign trade cannot be identified with either exports or imports alone; they arise out of the process of trade, that is, out of the exchange of goods for goods. Recognition of this fact constitutes the basis of the trade-agreements program.

The traditions of high protectionism in this country, however, have left a deep imprint on the economic thinking of the average American. They have obscured his view of the true value of exports and left him with an unreasonable and irrational hostility toward imports. The failure on the part of many Americans, including businessmen, industrialists, farmers, and factory workers, to appreciate the vital importance of imports in the national economy has denied the trade-agreements program the whole-hearted support which sound judgment and interest in the national welfare would warrant.

It is especially interesting to note that this importance has not been overlooked by military authorities, who keenly appreciate the fact that the ability of a nation to defend itself and to carry on war is largely based on its economic potentialities and that these in turn are depend-



ent on imports. Ever since the outbreak of the life-and-death struggle in Europe, a year ago last September, the destruction of import trade, essential to a nation's existence, has been a major factor in war strategy.

The British blockade was first aimed at preventing shipments of goods to Germany; its extension later to cover shipment of goods from Germany is evidence of the appreciation also of the military authorities of the reciprocal relation between imports and exports. An attack on the enemy's export trade constitutes an attack on the source of foreign exchange for its purchases of imports, including those shipped by inland routes beyond the reach of naval action. It may furthermore have the aim of drying up the enemy's sources of foreign funds for carrying on propaganda and subversive activities abroad.

Further evidence of the basic importance of import trade is found in the program which is under way in this country for building up large reserves of essential imported materials in the interest of national defense.

A national emergency, such as the necessity of winning a war or of the building up of national defenses, demands that due consideration be given to the necessary function of imports in the national economy. The recognition of this function is essential to the support of a sound commercial policy which is especially important at this time to the further promotion of inter-American solidarity.

The chief source of livelihood of our southern neighbors is the production of raw materials for world markets. Nearly half of their exports in 1937 was sold to Europe, but that trade is now disrupted as a result of the war. If the burden on Latin America of accumulating stocks of export surpluses is permitted to grow, it may be expected that the resistance of the American republics to economic penetration from the Old

World will be undermined and weakened. This problem of Latin-American export surpluses is one of immediate importance to which, as you know, this Government is giving serious attention. Its solution is highly important to the security of this hemisphere.

The basic need, however, of the defense and prosperity of the Americas is the continued development of closer economic relations among the American republics. There is need of each opening wider its markets to the products of the other republics, of developing industries to supply those markets, and of lending financial and technical assistance for this and other purposes.

I am sure that you are aware of the marked advance which has already been made in this direction under the administration's good-neighbor policy. Of outstanding importance in this connection are the trade agreements which this Government has entered into with 11 American republics, containing mutual guarantees of fair treatment and providing reciprocally for increased market opportunities through a lowering of import barriers. Even opponents of the trade-agreements program who have shouted "wolf, wolf" the loudest have benefited from its stimulus to foreign trade and the resulting expansion of the domestic market for their products.

As an illustration of this fact let me point to Florida's winter vegetable industry. Six growing seasons have elapsed since the import duties on tomatoes, cucumbers, potatoes, lima beans, peppers, eggplant, squash, and okra were reduced as a result of our trade agreement with Cuba, but there is no evidence to indicate that these duty reductions, which are seasonal and applicable only to imports from Cuba, have hindered the development of our winter vegetable industry; in fact, it has steadily expanded.

That no harm has come to this industry is shown by the fact that the growing of winter

vegetables in Florida has been substantially more profitable since the trade-agreements program has been in effect than it was prior to that time. The annual average farm income in Florida from the six most important vegetables affected by the Cuban agreement, namely, tomatoes, new potatoes, green beans, peppers, cucumbers, and eggplant, has increased by about one-third since the pre-agreement period. This increase in income has been accompanied also by increases in vegetable acreage and production.

Tomatoes are the most important vegetable to Florida affected by the Cuban agreement but, notwithstanding that agreement, tomato growing in your State has continued to expand and become more profitable under the trade-agreements program. The average annual income received by your tomato growers in the three seasons prior to that program was \$6,128,000; in the 1938-39 season it reached the record-breaking level of \$12,236,000, a 100-percent increase. The disastrous freezes of this past season, 1939-40, resulted, of course, in a serious set-back to tomato production—due to the weather, not to imports.

The demand for tomatoes is especially sensitive to changes in consumer purchasing power. Investigation has revealed that families with incomes ranging from \$1,000 to \$1,500 a year spend more than three times as much on tomatoes as do families with incomes under \$500 per year. The increase in consumer purchasing power, therefore, resulting from the restoration and expansion of our foreign trade under the trade-agreements program is of particular importance to the tomato industry.

Florida has benefited directly as well as indirectly from trade agreements. Increased market opportunities abroad have been obtained through trade agreements for many commodities of major importance to Florida, such as lumber, canned fruits and vegetables, and turpentine. Latin America, moreover, is an im-

portant market for such products, and Florida is therefore in an especially favorable position to share directly in the benefits of closer inter-American trade relations. In 1938 Latin America purchased about one-third of our exports of vegetables and vegetable preparations, 17.5 percent of our cigar exports, 16.5 percent of our naval-stores exports, and 4 percent of our exports of fruits and nuts.

When protests against the trade-agreements program are carefully examined they are usually found, as in the case of tomatoes, to be groundless. Nevertheless, the opposition of sectional and special interests have constituted a serious threat to the very existence of the program. Thanks to their short-sighted greed and also perhaps to the activities of similar privilege-seeking groups abroad, the trade-agreements program has not been advanced as far in our relations with the other American republics as might be desired, especially in view of the present need of American economic solidarity which the defense of this hemisphere demands.

In this connection attention may be called to our prohibition, under the guise of sanitary laws, against meat imports from certain areas of South America not affected by the disease against which sanitary safeguards are sought. The failure of this Government to provide warranted relief from such sanitary regulations and the indifference which would appear to be evidenced thereby toward the development of closer inter-American relations do not inspire the cooperation which is necessary to the further strengthening of hemispheric defense.

Although the people of this country are on guard against fifth-column activities, they do not appear to be alert yet to the more subtle danger of the existence within our midst of a sixth column composed of special interests who, out of blind selfishness, would sacrifice the common good for personal gain.



The need for a sound commercial policy exists not only in the relations between the American republics but also in the relations between the American republics and the rest of the world. Regardless of how successful efforts may be to bring about greater economic adhesion in inter-American relations, the fact remains that the Western Hemisphere will continue to have surplus products for sale to Europe. If our trade with Europe is to be maintained and developed, if it is to be conducted on a self-respecting basis of equality between nations, if it is not to be exploited as an instrument of political extortion and blackmail, then it must be established on a basis of liberal principles; that is, a multilateral most-favored-nation basis, such as is embodied in the trade-agreements program. And the American republics have already made it clear that these are the terms on which they are prepared to do business. At the Inter-American Conference at Habana last July it was resolved that the "American nations continue to adhere to the liberal principles of international trade . . . in their relations with each other as fully as present circumstances permit" and declared that "the American nations should be prepared to resume the conduct of trade with the entire world in accordance with these principles as soon as the non-American nations are prepared to do likewise."

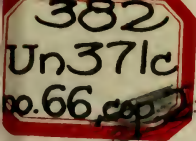
After the war, the world will be faced with problems of economic reconstruction. It is not possible, of course, to predict what conditions will exist at that time. It is all the more important, therefore, that our Government possess ready and effective means, such as are provided by the Trade Agreements Act, for dealing with new problems as they arise. Our efforts at post-war rehabilitation should, in our own interests as well as in those of other countries, be directed toward facilitating a return throughout the world to normal liberal trade.



practices. The mutually advantageous character of the trade agreements which the United States has concluded with 21 countries will be one of the strongest influences favoring such a program. Only by keeping our present commercial policy alive and active can we hope to achieve prosperity after the war on a sound and lasting basis.



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The Political  
And Economic Solidarity  
Of the Americas

Address by

LAURENCE DUGGAN

*Adviser on Political Relations  
Department of State*

before the

FOREIGN POLICY ASSOCIATION  
NEW YORK, NEW YORK

NOVEMBER 2, 1940

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## The Political And Economic Solidarity Of the Americas

A DECADE ago, if you had been told that within a few years the 21 independent republics of this hemisphere would have agreed that a threat to the peace, security, or territorial integrity of any one of them was a threat to all and that to repel this threat they would cooperate together, you would probably have branded this person as a confused and impractical visionary or an irresponsible scaremonger—a visionary, because the history of intervention on the part of the United States and the territorial conflicts between pairs of countries had made impossible agreement on any platform of hemisphere solidarity; a scaremonger, because the skies were clear of trouble, although from time to time a cloud, perhaps no bigger than a man's hand, appeared on the horizon.

During the kaleidoscopic developments of the last few months, did you ever stop a moment to consider what the predicament of the United States would be if, instead of friendship with our southern neighbors, we had their suspicion or hostility.

Only a few days ago, the Secretary of State in a public address said that only once before in our national existence has as grave a danger from without threatened the Nation. This danger would be more acute by manyfold if our relations with the other American countries were as deplorable today as they were 10 years ago. Happily they are on a more friendly basis than at any time since the days when Henry Clay was making eloquent speeches in the House of Representatives pleading for the recognition

of the independence of the republics which, after heroic efforts reminiscent of our own Revolution, had thrown off Spanish control.

It is not pertinent to the subject of this meeting to discuss how hemisphere solidarity came to pass. It was the result of the far-sightedness and patient efforts of many people in each one of the 21 countries. But, before entering upon a discussion of what it is and how it operates, it might be in order to point out that this solidarity could be lost overnight, if the United States were to revert to the policy of the "big stick", "dollar diplomacy", and intervention; in other words, if we again undertook to dictate to the other American countries how they should run their own affairs. This would mean the end of the good-neighbor policy because that policy is based upon the recognition that each of the 21 countries is an equal partner entitled to full respect in the American community of nations. To fortify their determination in this regard, the 21 countries have engaged never to intervene directly or indirectly in the internal or external affairs of any of the other countries. This country has scrupulously respected this commitment in small as well as large ways. It has modified prior existing treaties in order to bring them into conformity. It has hewed to the non-intervention line in all of its actions. I make particular mention of this because intervention and hemisphere solidarity are incompatible. If the people of this country prize the friendship of the other American peoples, then their Government must base its relations on recognition of the equality and inviolability of the sovereignty of each of the 21 republics.

Let us consider first the political aspects of hemisphere solidarity. For machinery, there exists the consultative procedure developed at the successive Buenos Aires and Lima conferences. The American republics have undertaken to consult with one another whenever the



peace or security of the Americas is threatened either from within or without.

At Lima it was agreed that a "threat" to the peace included threats of all kinds, not those merely of a military character; that consultations might be initiated by any country; and that the consultations were to be attended by foreign ministers or their representatives.

This machinery has been thought by some inadequate and cumbersome. They have urged a more precise definition of the conditions under which meetings should be called, of the procedure of the meetings, and of the commitments to be entered into under this or that contingency. They have urged an international covenant, spelled out to the last detail. It is perhaps sufficient to observe that the practicability and efficiency of the present arrangement have already been proved. Two meetings of foreign ministers have been held. The first was convened at Panamá within three weeks after the outbreak of the war in Europe. The second was held at Habana within a short time after the rapid developments in Europe held forth the possibility of a transfer in sovereignty or control of certain European possessions in this hemisphere. Both of these meetings achieved the purposes for which they were called. In the face of emergency conditions, the 21 countries met, worked, and agreed upon several decisions and procedures of the first importance. This demonstrates that the consultative machinery corresponds to necessities and realities. It has worked, and worked well, although it doubtlessly will be improved upon bit by bit as experience points to the desirability of changes.

At both the Panamá and the Habana meetings, it was the unanimous determination of all the countries to prevent, by any overseas power, interference in their own affairs or any attempt to dominate by force, by economic duress, or by any other means any portion of the New World.

Two manifestations of this determination might be mentioned.

It is well known that certain non-American powers have been endeavoring openly and covertly to subvert the internal institutions of the countries of this hemisphere. Through deceit, fraud, and guile, through threats and intimidation, they have relentlessly tried to upset existing political and social institutions in order to replace them with new ones under their own domination.

Recognizing that this was a danger to all countries equally, the American countries agreed at Habana that they would fully cooperate with one another within the limits of their respective capacities and always with complete respect for their individual liberty of decision. They have undertaken the fullest exchange of information with regard to such activities, so that the pattern uncovered in one country becomes known to all the others to aid them in unmasking and combating these alien efforts.

Of equal importance to the future security of the New World was the action taken with respect to the possessions in this hemisphere of non-American powers. With the occupation of the Netherlands and France, the possibility that the possessions of these countries in the Americas might be used as bases for activities of all kinds against this hemisphere had to be considered. Transfer of sovereignty would not necessarily have been involved. Control might have passed into other hands even though nominal sovereignty rested with the original owners. To prevent these possessions' serving as a focus for the extension of totalitarian ideas and activities, the American countries in the incredibly short space of 10 days agreed upon a detailed arrangement for the temporary occupation and administration of the possessions in question. This knotty problem presented a real test of hemisphere solidarity. The Americas rose to the occasion in unanimous agreement on a very practical and workable arrangement under which action by them at a moment's notice is

possible. No more stirring or convincing example of collaboration for the mutual benefit of all could possibly have been given than the agreement at Habana on this question.

Let us now turn to the economic aspects of hemisphere defense and solidarity. At every one of the inter-American meetings beginning with Montevideo in 1933, the American republics have stated their objectives to be the improvement of their standard of life through the expansion of international commerce, and through the development of their internal resources.

This objective may be discussed under two headings, from the long-range point of view and from the standpoint of the problems arising out of the dislocation of international trade on account of the war.

Let us take up the long-range aspect of this question first. As a very important step toward the restoration and expansion of international commerce, the Executive was given authority by the Congress to enter into reciprocal trade agreements. The purpose here was the revival of international trade, which had been drastically curtailed as a result of the world-wide depression. The method was the reduction of unreasonable trade barriers and the general reestablishment of the rule of equality of commercial treatment. In the six years since this program was initiated, 11 agreements have been entered into with the other American republics. That these agreements have contributed to the expansion of our foreign commerce is evidenced by the fact that our trade has increased with the countries with which we had agreements more than with those with which, for one reason or another, it has not yet been possible to conclude agreements. The authority to conclude trade agreements was extended at this session of Congress for another three years. Although the disturbed world conditions introduce new complications, neverthe-

less it is hoped that during the coming years it will be possible to negotiate further agreements with the other American countries and perhaps to revise and extend some of those already concluded.

Equally important to the expansion of international trade between the Americas is the diversification of exports so that the economy of many, if not most, of the American republics will no longer have to rely upon a small number of exports highly sensitive to world developments. The experience of the world depression has demonstrated that no country is truly independent when its economic life is almost exclusively dependent upon events or decisions which take place in other continents many thousands of miles away and in the determination of which it has no voice. An export economy, particularly when it is confined to one or two products, is extremely perilous for the producing countries, as they are never able to count upon a continuous and steady consumption of their production.

The soil and climate and other natural conditions are excellent for the production in the other American republics of raw materials which we have heretofore been purchasing almost exclusively from other more distant parts of the world. Rubber is an outstanding example of this type of commodity. Forty years ago practically the entire world's supply came from the Amazon Basin. Rubber seedlings were smuggled out of Brazil to the Far East, and plantation rubber soon replaced the wild rubber of Brazil. Just as the original habitat of rubber was the Amazon Basin, so there is no reason why that area again should not become a great source of rubber. It has been objected that rubber in this hemisphere can not be produced as cheaply as in the Far East on account of the very low cost of labor in the Netherlands East Indies and Malasia. Certainly our inter-American objective of an in-



crease in the standard of living would not be attained by payment of wages comparable with those paid in the Far East. Living standards, already too low in some localities, would be lowered still further. The solution to this problem may rest in the development of new high-yielding strains of rubber. The experiments which have been carried on for many years, not on one acre, but on thousands of acres of trees in Brazil, in Panama, and in Costa Rica, show that new strains have been perfected in this hemisphere, which on the average yield more than three times as much as the trees in the Far East.

This high yield should more than offset the low cost of plantation labor in the Far East and make possible economic rubber production in the Americas. In fact we may anticipate a considerable reduction in the cost of rubber to the United States consumers as this development proceeds. The price of rubber, largely because of the controls exercised by the rubber cartel, has tended to be maintained at the level of about 20 cents a pound. Experts of the Department of Agriculture feel that it is quite practicable to grow rubber in the American republics, using the new high-yielding strains and with modern production techniques, at a cost of less than 10 cents per pound. At a price of 10 cents per pound, 130 million dollars would have been saved the American importers of rubber during the past year. It is clear, therefore, that there exist great possibilities for a great development of rubber production in this hemisphere of benefit both to producers in the other American republics and to consumers in the United States. Important areas of Central America, Panama, and Colombia have been found to be well suited to rubber production. Furthermore, the Amazon Basin might again become a great rubber-producing area. Thousands now making a scant living could be given steady employment at decent wages. The



President of Brazil, with this among other possibilities in mind, has recently suggested a conference of all of the Amazon countries to consider the utilization and development of the resources in that vast area.

Another strategically important product which can be grown in this hemisphere and thus supplant a supply which today comes mainly from the Far East is abacá, or manila hemp. The United States Navy uses the production from about 75,000 acres annually. Abacá is unusually valuable because the fiber is more resistant to salt water than any other in common usage. There are a great many abandoned banana areas which could be utilized for its production, and 2,000 acres of abacá are already under cultivation in Central America.

Another important product for which there is a ready market in the United States and other nations is quinine, which, although originally produced mainly in the Andean region, is now supplied almost entirely from the Orient, under the control of a monopoly which sells it at a price far above what millions of persons can afford in malarial areas of the tropics of this hemisphere. The Department of Agriculture in its experiment station in Mayaguez, Puerto Rico, has carried out considerable research on quinine production during the last six years and has developed improved methods of producing high yields, not only of the cinchona bark, but of high percentages of the alkaloid.

Common to the tropics are many types of the so-called "fish poison" or rotenone-bearing plants, which are extremely valuable for insecticidal purposes. Entomologists are keenly interested in these plants because they offer a possible solution to the spray residue problem presented by lead arsenate, particularly in the spraying of vegetables. Importations of these products have increased from two million pounds in 1936 to an estimated seven million pounds valued at about one million dollars for

this year—1940. Since farmers and horticulturists each year use in excess of 100 million dollars' worth of insecticides, there is an important future market for rotenone-bearing plants.

It has become clear, despite the market for these products, that it will be necessary first to gather together the scientific information as a preliminary to the development of these natural resources. Today, thanks to an appropriation by our Congress, the Department of Agriculture, in collaboration with similar departments in several countries, has four field parties in the other American republics studying the conditions and places where rubber may best be grown. Already preliminary surveys have been completed or are now under way covering 10 of the other republics of this hemisphere, and additional surveys of rubber possibilities are contemplated in five of the remaining countries. In addition, the Department of Agriculture proposes to carry out investigations and geological studies in soils, climatic factors, disease conditions, et cetera, in areas where many other tropical products flourish. Soon there will exist the scientific information for use by those who are interested in the development of these complementary, non-competitive agricultural products which are so vitally important to the United States.

There is likewise a demand in this country for a number of mineral products which either are not produced at all in this country or in insufficient quantities and which are present in large deposits in the other American countries. Mention might be made of manganese, tin, tungsten, and chromium. For instance, with the exception of a few small domestic deposits of tin, this country is entirely dependent upon imports of this vital product. Although the ore equivalent to approximately one third of our total consumption of fine tin is produced every year in Bolivia, heretofore Bolivian tin

ore has gone to England for smelting and thence has been reexported to the United States. Bolivian tin has crossed the Atlantic twice en route to the United States.

For years the Bolivian Government has not been satisfied with this arrangement. It has wished to diversify not so much its production as its market outlets. An agreement has now been reached in principle between the Metals Reserve Co., a subsidiary of the Reconstruction Finance Corporation, and Bolivian producers, under guaranty of the Bolivian Government, by which this country will purchase Bolivian tin ore under contract for a period of five years for smelting in the United States.

This type of operation, whether in the field of non-competitive agriculture or non-competitive mining, means an improvement in the standard of living in the other American republics as a result of new jobs and better wages. It also means additional security for the United States through the obtaining of important raw materials vital to our industry from friends who will always assure us a continuous supply.

Another way of bringing about an improvement in the economy of the other American countries is by the production of articles for internal consumption. The economy of the future, if that economy is to be the reflection of the progress of which the New World is theoretically capable, will represent in every quarter of this continent a high degree of diversified local production of manufactured articles. Scientific developments and technicological advantages today make it possible for every country to produce to the greater or lesser extent consumers' goods. It has been argued in certain quarters that this may result in a diminution of the volume of our export trade. It is perhaps sufficient to state that the largest export trade of the United States has been with the countries most advanced industrially. Industrialization, carrying with it an increase in living standards, creates new wants and desires.

An outstanding example of the practical working out of this policy of diversification is the arrangement recently concluded by the Brazilian Government and the Export-Import Bank for the creation of a steel industry in Brazil. If this steel industry will mean cheaper steel in Brazil and will help to develop Brazilian industry, it will inevitably result in an improvement in living standards and an expanded market for American exports. This country is thus not only helping the people of Brazil by opening up new opportunities to them, but is helping itself in paving the way for an expanded volume of purchases by the 45 million Brazilians.

Although the Brazilian steel proposition is an outstanding example, many other possibilities in agriculture and industry await only imagination, the investment of capital, and hard work. In order to provide a mechanism, which could take the initiative in fostering enterprises of mixed United States and local ownership and management, to develop such possibilities, the Inter-American Financial and Economic Advisory Committee established last June the Inter-American Development Commission, which is now functioning under the chairmanship of Mr. Nelson A. Rockefeller and with private and public representation of the United States and the other American republics. The Development Commission has already arranged for a special commission of retail buyers who, headed by Mr. Oswald Knauth, will shortly leave for South America to investigate the possibilities of establishing there small industries to supply the type of retail merchandise formerly obtained in Central Europe. In addition, the Development Commission has actively been furthering the development of plants in Brazil to produce mandioca starch. The Development Commission has established subcommissions in Brazil, and several other countries to advise with it on the particular problems of the individual countries. Although the Development



Commission has started in a rather modest way, it is rapidly expanding its activities and should be considered, I believe, a most important instrument of inter-American economic cooperation, both for the long-run developmental objectives and the immediate problems arising out of the war's dislocations.

In this regard it seems fundamental in any new development of the resources of the other American republics that the countries and peoples concerned participate to a greater extent in the future than they have in the past in the benefits resulting therefrom. The belief is too widespread and perhaps too true that exploitation of natural resources has meant only higher wages for a few, some increased taxes for the government, and the depletion of the resources at the end of their development. Just as in the field of inter-American governmental cooperation there has been developed the feeling of partnership, so among businessmen a similar arrangement, in both logic and practice, should be developed. Local capital should not only be given every opportunity but should be encouraged to participate in new enterprises. Citizens of the country where the enterprises are located should be on the board of directors.

And may I say a word about the position of citizens of this country who participate in these new enterprises? These must not only be willing to share the opportunity for investment and the responsibilities of management and administration, but they must be ready to throw their lot in with the future destinies of the countries where their enterprises are located. Absenteeism will not work, and it will be necessary, if these enterprises are to have their maximum benefit, for the participating citizens of this country to plan to go to the other American countries with their families with the intent of staying there indefinitely. Only in this way will a real partnership effort be accomplished and practical demonstration given of



the intention of our country to work for the benefit of all.

We have now discussed briefly the long-range economic objectives of inter-American cooperation. Let us now turn to the immediate problems arising out of the dislocation of international trade on account of the war. Since Europe has in normal times provided a market for more than 50 percent of the exports of the 20 other American republics, the progressive spread of warfare in Europe, with its accompanying blocking of markets, has had far-reaching repercussions on the exports, the exchange situation, and the internal economies of those nations. Some of these difficulties were anticipated at the outbreak of the war, and the First Meeting of Foreign Ministers at Panamá shortly thereafter provided for the creation of an Inter-American Financial and Economic Advisory Committee to proceed immediately to consider possible methods of alleviating the situation. This Committee, which has met continuously at Washington since November 15, 1939, has undertaken a wide variety of studies and has recommended a number of important measures. In the rather short time that it has been in existence, it has come to be recognized as one of the most important intergovernmental advisory groups ever established. Recognizing this, and in view of the increasing gravity of the international economic situation, the Second Meeting of Foreign Ministers at Habana last July resolved to strengthen and expand the activities of the Committee in a broad program for the maintenance and improvement of the economic and social well-being of the peoples of the Western Hemisphere.

With respect to those commodities which are of primary importance to the maintenance of the economic life of the hemisphere, this program envisages measures for increasing their consumption and interchange among the American republics, facilities for the temporary

handling and orderly marketing of such surpluses as are not immediately marketable because of the war's dislocations, and the development of appropriate commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the individual commodities concerned.

Within this general framework numerous specific measures have been taken and institutions set up. After a very careful study and analysis over a period of six months by some of the outstanding financial experts of the Americas, the Inter-American Committee recommended the establishment by the 21 governments of an Inter-American Bank. Already nine of the republics, including the United States, have indicated their intention to participate in such an institution by signing the appropriate convention, and it is my belief that many more, if not all, of the nations will do so during the next six months or a year.

The bank is designed to promote the fuller exploitation of the natural resources of the Americas, to intensify economic and financial relations among the American republics, and to mobilize for the solution of economic problems the best thought and experience in the Americas. Specifically, it is believed that the bank's principal importance will lie in investigating and facilitating rather long-term development projects in the other American republics, and that a secondary activity of consequence will be the extension of shorter term facilities to the monetary authorities of this hemisphere to assist them in eliminating seasonal and temporary fluctuations in their exchanges. Its creation will fill a gap in that wide zone of economic and financial activity for which the existing machinery of inter-American cooperation has been inadequate. I should also like to point out that it is the clear intention of all concerned that the Inter-American Bank shall complement existing financial institutions rather than provide a sub-

stitute for them. The bylaws of the proposed institution clearly carry out this intention. The safeguarding of the interests of individual nations is inherent in the entire plan and appears throughout the drafting. No action may be taken by the bank which may affect any particular nation until after that nation has been given an opportunity to object to, or to give its consent, approval or guaranty to the operation.

The Inter-American Financial and Economic Advisory Committee has also been active in the field of the problems of specific commodities. Following the conclusion of the Third Pan American Coffee Conference in New York last summer, it established a special coffee subcommittee which last week completed the preparation of an Inter-American Coffee Marketing Agreement. The Inter-American Committee has referred this agreement to the 15 interested governments for their approval, and it is expected that their action will soon be taken. This coffee agreement represents the first broad attempt of the American nations producing and consuming an important product to get together to work out a marketing arrangement in the best interests of both the producers and consumers. It represents an undertaking to avoid ruinous competition between 14 producers of a single commodity for markets sharply restricted by the European situation. It represents an endeavor to obtain for the coffee producer a reasonable and equitable return, without prejudicing the interests of the consumer. It is an example of the type of co-operation on specific commodities which may be attained.

In all of these discussions and studies the United States has played an active role, contributing technical advice and factual background information prepared by the various agencies of the Government. It has also utilized its existing agencies, including especially the Export-Import Bank on the financial side, to

enter into mutually advantageous arrangements with a number of American republics in connection with the development of particular industries and by way of assistance to their central banks in monetary and foreign-exchange matters. The Congress has, moreover, recently expanded the operations of the Export-Import Bank, allocating an additional 500 million dollars "to assist in the development of the resources, the stabilizations of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere". With this authority the United States is in a position to expand its cooperative efforts with other American nations in the fields of long-term development and of monetary and exchange matters, to participate in immediate joint action with such other nations to meet pressing trade situations, and to enter effectively into arrangements for the temporary handling of important commodities.

I am confident that you share my belief that the governments of the 21 American republics have done their share to build firm foundations for the structure of inter-American unity and solidarity. But governments can do only so much. They alone cannot complete the structure.

The people of this country as a result of the rapid changes in European politics during the last six months have indicated their desire for a strengthening of our relations with our southern neighbors. They must not expect that their Government alone can do this job. If you, the people of the United States, set a high value on the friendship of the other American countries, you must do your share toward bringing this about. In as much as there are probably represented in this audience a very wide variety of professions and occupations, it would be fruitless to endeavor to explain what contribution each one could make. I would, however, like to be permitted two observations. In



the first place, real statesmanship on the part of our business and financial interests can help to ameliorate the economic difficulties now besetting every country in the Americas. There is a belief in many quarters throughout the hemisphere that our export interests are taking advantage of the temporary absence of competitors from the market to charge whatever the market will bear in order to reap a rich harvest. It should be our policy to fill the import needs of the other American countries at as low a price as possible.

Again, there is a belief that our private financial institutions are failing to realize that moderate credit terms during these critical days will not only help the countries to which they are extended, but also, from the long-term point of view, the position of the banks which extend them. Wise policy would seem to indicate the desirability of our banking interests' making credit available on as reasonable terms as possible.

In the second place, it is as impossible to be friendly with a country that you do not know as with a person whom you do not know. If, therefore, you really believe in the solidarity of the Americas, you will undertake, if indeed you have not already done so, to learn the languages of the countries and to familiarize yourself with their historical heritage and their cultural achievements. When the people of this country know as much about the other countries of this hemisphere as they do of certain European countries, then we will have advanced a long way along the road toward real understanding, without which the structure of inter-American solidarity will never be complete.



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# Agriculture And International-Trade Relationships

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UNIVERSITY OF ILLINOIS Address by

HENRY F. GRADY

*Assistant Secretary of State*

before the

MISSISSIPPI

FARM BUREAU FEDERATION

JACKSON, MISSISSIPPI

NOVEMBER 14, 1940



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## Agriculture And International-Trade Relationships

INTERNATIONAL trade has deep significance for every American farmer. Not only United States exports and imports of agricultural products, but international trade in all commodities and among all countries of the world affect the welfare of agriculture in the United States. When world trade is healthy and vigorous American farmers prosper; when it stagnates or is throttled, they suffer.

Foreign trade is especially important to farmers in this country producing such commodities as cotton, tobacco, lard, rice, wheat, and fruits, who are dependent on foreign markets for the sale of their surplus production. The producers of these and other export products of the soil know very well what the loss of foreign markets means. It means one of three things: (1) their production must be scaled down to a level determined by the domestic demand, (2) they must shift over into producing other crops to which their experience and their farms are not so well adapted, or (3) unsalable surpluses will pile up in this country and force the prices of their products down to ruinous levels.

Foreign trade is important also to American producers of such products as beef cattle, dairy products, wool, and sugar, of which the United States does not have export surpluses under normal conditions. The prosperity of these farming groups depends primarily upon the prosperity of the domestic market. When American consumers are prosperous this domestic market is good. When American con-

sumers are not prosperous they drop out of the domestic market as customers, and farmers producing primarily for that market suffer in the same way as do the farmers who produce agricultural commodities for export. The prosperity of the domestic market depends, of course, in large degree upon the prosperity of our export trade, in non-agricultural as well as in agricultural products.

The bearing of industrial exports on the prosperity of American agriculture is pointed out concretely in a study made by Professor Schultz of the Iowa State Agricultural Experiment Station at the request of the American Farm Bureau Federation. He states as follows:

"For example, the total output of farm machinery rose in value about \$273,000,000 from 1935 to 1937. About 16 percent of this resulted from increased exports. Purchases of foodstuffs increased perhaps \$1,500,000 as a result of the rise in payrolls due to larger exports. For automobiles and motor vehicles, foodstuffs expenditures probably rose around \$2,800,000 as a result of larger export business. For primary iron and steel products the gain was perhaps \$5,000,000.

"The list could be extended by including electrical and industrial machinery, petroleum and its products, advanced manufactures of iron and steel, automobile parts, chemicals, copper and copper manufactures, and many others."

It may be seen, therefore, that American farmers, whether they are producing for export or for the domestic market, are benefited by exports of manufactures as well as of farm products. But international trade, like any other trade, is a two-way transaction and the American farmer has an interest in imports as well as in exports.

There is no profit in growing crops and livestock products for sale abroad unless the farmers receive something in return for them. Selling them on credit is merely postponing pay-



ment. Furthermore, few foreign countries are now in a position to pay the United States in gold for their purchases of American merchandise and, moreover, the United States already has more gold than it knows what to do with. Therefore, American exports, an important factor in the prosperity of American agriculture, must eventually be paid for largely with foreign goods.

Imports, moreover, consist of goods which American consumers need and want. They may be raw materials essential to American industrial operation, or special products which help to raise the standard of American living. Some of these commodities, which are not produced at all in the United States, are not subject to import duties. Many of them, however, have been imported over high tariffs, and of course the American farmer, together with other American consumers, has had to pay the high duties.

Notwithstanding the need of imports to maintain and expand the foreign markets of our farmers and manufacturers and to provide an adequate standard of living at price levels within reach of our workers in the fields and in the factories, the Congress, nevertheless, enacted in 1930 the highest tariff wall in our history—the Hawley-Smoot Act. The decline in our imports which followed the adoption of excessive and economically unsound tariff rates was poor satisfaction to American farmers, since the decline in our imports which followed enactment of the Hawley-Smoot Tariff was accompanied by disastrous shrinkage of farm exports, farm prices, and farm income. Obviously, in order to regain lost export markets for American farm and factory products and thus to contribute to the restoration of prosperity for American agriculture and industry, it was essential that we scale down the excessive tariff wall, which was preventing American consumers from purchasing foreign products and which was depriving

foreign consumers of the wherewithal to pay for American export surpluses—agricultural and industrial. Accordingly, with a view to facilitating economic recovery, there was enacted in the early part of the present administration the Trade Agreements Act of 1934, since extended in 1937 and again in 1940.

The trade-agreements program has now been in operation for more than six years and, in view of the revival and growth which has come about in that time in industrial activity, employment, and agricultural income in the United States, there are few people today, I believe, who have any genuine doubts as to the wisdom of the commercial policy embodied in that program.

Nevertheless, some people may point out that while such a policy is of great benefit in time of peace, international trade in wartime is affected largely by other than economic considerations, and they may ask what benefit the trade-agreements program is to American foreign trade, especially to American agricultural exports, under the abnormal conditions which now prevail.

Our agricultural exports for the first 12 months of the war were larger than they were in the preceding 12-month period. The gain was accounted for largely by cotton, but it occurred in the first half of the period and was due in a large part to the fact that foreign stocks of American cotton were nearly exhausted at the beginning of the war. Last August, our cotton exports were smaller than in any month since August 1914.

For the most part our agricultural exports have been hard hit by the war. Our industrial exports, however, have increased, and the prospects are that they will continue to increase. It is predicted that this increase, together with national-defense activities, will result in a large enough expansion in the domestic market for American farm commodities to produce in the coming year a rise in the total agricultural in-

come of the United States, especially in the incomes of the farmers who produce chiefly for home consumption. Of course, the position of the farmers who have surpluses for export will not be as favorable, for, while they may expect to increase their sales in the domestic market, the prospects are that their sales abroad will continue to decrease. The question is, what can the trade-agreements program do about it?

As a matter of fact, trade agreements have been a factor of significance in our foreign-trade position under war conditions. It is important to note in this connection that, although our imports increased in the first nine months of this year over the corresponding period of last year, they have not increased as much as have our exports, indicating on the part of the foreign purchasers of our goods, a drain on their sources of dollar exchange. This has in part caused the belligerents to limit their purchases from the United States to essential items in order to conserve their dollar funds for war materials. The American trade in agricultural products, many of which have not come under the category of essentials, has especially suffered as a result of this policy. Furthermore, the using up of dollar exchange now by the foreign countries concerned may mean, in the case of the belligerents, that their ability to buy American farm products after the war will be impaired and, in the case of other countries, that we shall not be able to hold on to the trade gains which have been made and which, indirectly, have benefited American agriculture.

The drain, however, on the dollar-exchange resources of foreign countries, the consequences suffered as a result thereof by American agriculture, and its possible effects on future trade might be greater than is now the case were it not for the existence of trade agreements. The lowering of our tariffs as the result of these agreements has afforded foreign countries the

opportunity of exchanging larger amounts of their goods for American products than would otherwise be possible and thus has relieved in some measure the pressure on their potential dollar-exchange reserves.

It may be pointed out, moreover, that the possibilities of providing further relief to American agriculture from the pressure of dollar-exchange shortages are not yet exhausted. There are many countries outside of Europe with which we do not have trade agreements, and the prospects of concluding mutually profitable agreements with such countries are being constantly explored.

The prospects of minimizing the present decline in export trade of American farm products and of expanding the foreign markets for such products after the war depend on a recognition of the fact that imports provide the means of payment for exports and that foreign trade, if it is to be encouraged, must be conducted on a triangular or multilateral basis, as provided for by the principle of most-favored-nation treatment. These considerations are fundamental in the commercial policy underlying the trade-agreements program.

Multilateral trade, based on the principle of equal treatment, makes it possible for each nation to buy and sell in the best markets. On the other hand, bilateralistic trade, effected by such discriminatory devices as clearing agreements and barter arrangements, requires a country to buy in the same foreign market in which it sells. Since that market is, of course, limited in its capacity to satisfy the import needs of its foreign suppliers, both the sales to and the purchases in that market are smaller than they would otherwise be.

The American farmer should beware of salesmen with a line of bilateralistic goods who represent their wares as miracle-working devices for promoting exports. They are merely high protectionists in disguise who would like to

embargo imports. Although our merchandise sales to Europe in the past 20 years have exceeded our purchases of European products by about 20 billion dollars, the advocates of bilateralism are not likely to argue that we should have increased our imports from Europe in that period by such a sum in order to balance the exports. They know very well from the world's experience with bilateralism in the last decade that the balance in trade is effected in the other way, by a decrease in exports.

Our present commercial policy, which has served us well in the past, offers us now the only means for safeguarding our international commerce and for protecting American agriculture and industry whose prosperity is dependent on world markets and access to world supplies of raw materials.

It is not because of fidelity to noble sentiments or of an allegiance to so-called old-fashioned doctrines that we must continue to uphold the multilateral principles of the trade-agreements program, but because practical considerations and hard-headed business sense leave no other course open. The basic proposition underlying our commercial policy is that foreign trade is a vital factor in the prosperity, strength, and peace of the Nation; our policy is to foster such trade. So long as we hold the national interests above those of any economic group or section of the country, no change in that policy is possible.



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Some Aspects  
and Implications of American  
Foreign Policy in the  
Present World Situation

Address by

LYNN R. EDMINSTER

*Special Assistant to the  
Secretary of State*

before the

EASTERN OREGON WHEAT LEAGUE  
PENDLETON, OREGON

DECEMBER 6, 1940

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## Some Aspects and Implications of American Foreign Policy in the Present World Situation

THIS meeting of wheat growers in the Pacific Northwest takes place at a time when the minds of all of us are filled with concern over the critical situation which exists in the world today. The impact of wars abroad upon the daily life and activity of millions of our people, and above all the serious threat which has arisen to the safety and security of our country, have made foreign relations and national defense the all-important business of the moment—whether we like it or not.

You people, as producers of a great world staple like wheat, are of course immediately and directly concerned with the international situation as it affects supply and demand conditions with respect to your particular commodity. I assume, however, that others on your program will deal with this phase. Hence I want to talk to you simply as citizens—citizens anxious not only for the immediate safety and security of this Nation, but also for the preservation of conditions in the world in which liberty-loving nations like our own will be able in the future to live in security and to dedicate their efforts to constructive, and not destructive, ends.

I choose these words deliberately. When I say “constructive” ends, I mean the further advance, and not the relapse into barbarism, of the civilization, which, with endless patience and sacrifice, mankind has built up through the ages. I mean the opportunity to work for, and the prospect of achieving, a constant bet-

terment of conditions of life, and hence the increased happiness, of the masses of the people. That must always be the central concern of democratic government; and if we are going to preserve and extend this opportunity for human advancement, we cannot but be apprehensive when nations which boast supreme contempt for free institutions set themselves upon the path of world conquest.

We are all aware of the dangerous state of affairs that exists in the world today. It has now become unmistakably clear that the wars going on in other parts of the world are by no means merely local or regional conflicts which this Nation can ignore in safety while it turns its eyes inward and preoccupies itself solely with internal affairs. If there are those who once believed this, they can surely no longer be under any illusion. When the President of the United States says, as in a recent address, that "it can no longer be disputed that forces of evil which are bent on conquest of the world will destroy whomever and whenever they can destroy", we know that he is speaking from the record and not from mere speculation.

While I ordinarily avoid lengthy quotations, I am now going to make an exception to prove the rule. I want to quote at some length from a recent address of Secretary Hull, because he has said much better than I could possibly say the things that should be emphasized at this point. I quote:

"The appalling tragedy of the present world situation lies in the fact that peacefully disposed nations failed to recognize in time the true nature of the aims and ambitions which have actuated the rulers of the heavily arming nations. Recoiling from the mere contemplation of the possibility of another widespread war, the peoples of the peaceful nations permitted themselves to be lulled into a false sense of security by the assurances made by these rulers that their aims were limited. This con-



tinued even as succeeding events left less and less room for doubt that, behind the screen of these assurances, preparations were being made for new attempts at widespread conquest. To mask still further this monstrous deception, these rulers and their satellites attempted to brand as 'war mongers' and 'imperialists' all who warned against the clearly emerging dangers, and poured upon them vituperation and abuse.

"The rulers of these nations have repudiated and violated in every essential respect the long-accepted principles of peaceful and orderly international relations. Merciless armed attack; unrestrained terrorization through slaughter of non-combatant men, women, and children; deceit, fraud, and guile; forced labor; confiscation of property; imposed starvation and deprivations of every sort—all these are weapons constantly used by the conquerors for the invasion and subjugation of other nations.

"They adhere to no geographic lines and they fix no time-limit on their programs of invasion and destruction. They cynically disregard every right of neutral nations, and, having occupied several such countries, they then proceed to warn all peaceful nations that they must remain strictly neutral until an invading force is actually crossing their borders. They have as a fixed objective the securing of control of the high seas. They threaten peaceful nations with the direst consequences if those nations do not remain acquiescent, while the conquerors are seizing the other continents and most of the seven seas of the earth.

"Let no one comfort himself with the delusion that these are mere excesses or exigencies of war, to be voluntarily abandoned when fighting ceases. By deed and by utterance, the would-be conquerors have made it abundantly clear that they are engaged upon a relentless attempt to transform the civilized world as we have known it into a world in which man-

kind will be reduced again to the degradation of a master-and-slave relationship among nations and among individuals, maintained by brute force."

In the face of this grave situation, the supreme task which this country faces today is the task of protecting the legitimate interests and the safety and security of this Nation. The crux of the problem is to accomplish this all-important objective, if it is humanly possible to do so—as I earnestly hope and believe it is—without involving this country in war.

If we are to proceed effectively toward this objective, we cannot afford, however, to permit ourselves to be confused and misled meanwhile by loose and irresponsible talk about "getting this country involved in foreign wars". We need to make more use of our brains and less use of fear-mongering slogans. Every intelligent adult in this country knows that any major war anywhere in the world profoundly affects the interests and the welfare of the people of this country. In that sense no major war anywhere in the world is "foreign" to the United States. But getting involved in war simply because of that fact is an entirely different matter. To assert or imply, without the slightest justification, that any responsible government would recklessly lead its people into wholesale bloodshed while there still remains any possibility, consistent with the national security, of avoiding such a course is extravagant talk which ought not to be indulged. For it can only tend to undermine public confidence, foster disunity, and weaken our social fabric at a time when the very safety of the Republic requires that those charged with the heavy responsibility of government shall have the full confidence and support of a united people.

The question is not one of good or bad intention. We all want peace. We are all agreed that war is a scourge that ought to be banished forever from this earth. But we are in the presence of a condition and not a theory; and

we shall get neither peace nor security by merely wishing for them. "We know", as Chester Davis, agriculture's representative on the National Defense Advisory Commission, said in a recent address, "that nations holding resources which strong predatory nations covet, or which stand between them and the realization of their plans for world dominion, cannot be weak and live"; that "the nation which is rich in resources but unorganized to employ them powerfully and swiftly in military action, if need arises, does not command the respect of predatory powers; . . . has no weight by the standards of a world dominated by force". In short, we know—to quote Secretary Hull once more—that "to have peace we must have security" and "to have security, we must be strong".

In dealing with this crisis in our foreign relations and the national defense, the Government has been active, as you know, on several fronts.

First, and of the utmost urgency, we are arming. Our military, naval, and air forces are being strengthened as rapidly as possible. Creating new facilities for production—new plants, new tooling, etc.—requires time. Nevertheless, as of approximately the middle of November, nearly nine billion dollars in contracts had already been let to American industry. A vast program of military and technical training of our enormous manpower has been set in motion. Exports of certain materials necessary for national defense have been stringently regulated; and steps have also been taken to assure the availability of adequate supplies of strategic and critical materials for which we are dependent in whole or in part upon imports. The arrangement with Great Britain by which we acquired long-time leases on eight strategically located naval and air bases designed to protect our Atlantic seaboard was a tremendously important step. Defense consultations are under way with our neighbors both to the north and to the south. Vigorous measures are being

taken to deal with subversive activities directed from abroad. America has, indeed and at last, awakened to the dangers of her present situation and is acting with characteristic vigor and resourcefulness to meet them.

Second, we are striving in every way to create closer ties and a spirit of solidarity with all the Americas and to establish, with them, a system of continental defense. Fortunately, the groundwork for such effort did not have to be laid at the eleventh hour. Thanks to our good-neighbor policy and to the many concrete acts by which it has been implemented during the past seven years, the groundwork had already been laid.

I wish there were time to review the steps by which this spirit of collaboration and of solidarity has been achieved. It is a glorious chapter in the history of inter-American relations. It is a story that goes back to the inter-American conference at Montevideo in 1933, at which were laid foundations for the building of closer ties—political, economic, and cultural—between the 21 American republics. I particularly stress, as growing out of that conference, two things. The first is the reinforcement given the doctrine of non-intervention in the internal or external affairs of other nations, a doctrine to which this country, by numerous specific actions, has subsequently given evidence of its concrete support. The second is the unanimous approval secured, under the initiative of the United States, for a liberal program of trade policy—a program which was shortly thereafter set into motion, in our own country, through the adoption of the Trade Agreements Act, as a result of which our trade relations with many countries, both inside and outside the Western Hemisphere, have since been lifted out of the sorry state into which they were precipitated by earlier tariff enactments, notably the Hawley-Smoot Act. By successive stages, in later conferences—at Buenos Aires,



late in 1936; at Lima, late in 1938; in Panamá, in the autumn of 1939; and at Habana, last summer—the foundations for increased solidarity and for closer collaboration in matters of common concern to this hemisphere were greatly strengthened.

Particularly would I emphasize the steps taken, since the outbreak of war in Europe, to insure the peace and security of this hemisphere. In conformity with policy and procedure set up at Buenos Aires in 1936 and Lima in 1938, the conferences held at Panamá, shortly after the outbreak of war, and at Habana, last summer, adopted important measures to safeguard the individual and collective interests of the American republics from the growing threat to their peace and safety. Out of the Panamá meeting came a declaration of the policy of keeping European hostilities out of American waters, and the creation of machinery for coordinating action of the 21 republics in dealing with common problems relating to neutrality and to economic conditions brought about by the war. Out of the Habana meeting came, not only further measures of economic defense and collaboration but also—and of particular timeliness—steps to prevent any transfer of sovereignty in the Western Hemisphere from one non-American nation to another. Important also was the agreement with respect to procedures for combating subversive activities in this hemisphere directed from abroad.

A third front on which there has been constructive action for the peace and safety of our country has been through the large and increasing material assistance which we have been giving to nations which, while fighting for their very existence against ruthless attack, are checking the spread of violence and thus reducing the threat to our own security. The common sense of this course of action is so obvious that it is scarcely a fit subject for de-



bate. To argue that we should not give such assistance is tantamount, as Secretary Hull has said, "to a denying of the inalienable right of self-defense". In this realm of defense, as in others, our choice is made, and wisely made.

"We will continue", said the President of the United States in a recent address, "to help those who resist aggression, and who now hold the aggressors far from our shores. . . . We have learned that if we seek to appease them [the aggressors] by withholding aid from those who stand in their way, we only hasten the day for their attack upon us.

"The people of the United States, the people of all the Americas, reject the doctrine of appeasement. They recognize it for what it is—a major weapon of the aggressor nations."

Finally, it is necessary to mention one other major phase of the Government's activity and concern in this great crisis—not so spectacular as the rest but vastly important none the less. I refer to the constant effort, through word and deed, to keep alive those principles, ideas, and ideals which are basic to the establishment of solid foundations for lasting peace. This is a task which must never be neglected.

Let no confirmed cynic ever delude us into thinking that the widespread flouting of such principles of conduct by certain powerful, aggressor nations has now relegated them to a state of impotence in the evolution of human affairs. There is a power in ideas and ideals which transcends the sinister plottings and schemings of evil men and supplies the underlying impulse for the forward march of civilization itself. No mere dictator or combination of dictators can extinguish them. They have triumphed before, and under their powerful impetus the world will rally once again and resume its forward march.

In international affairs we identify these principles by such expressions as faithful observance of international obligations and pledges;

resort to orderly, peaceful processes, rather than to force, in the settlement of disputes; and non-interference in the internal affairs of other nations. In the broad pages of history they find expression in the age-long quest for freedom, for the recognition of the spiritual dignity and sanctity of each individual human being. In the family and in the community they are exemplified in the practice of honesty, tolerance, and good-will as cardinal principles of living; in being a "good neighbor", with all that implies. To those people who profess to see in the bloody struggle now being waged in other parts of the world no issue involving these great human values, no issue in terms of the future safety of our democratic ideals and institutions, no issue at all save a struggle between rival imperialisms—to such people I would commend a more careful reading of the pages of history. Had the torch of human liberty and progress been entrusted into the hands of people who view the matter solely in this light, I am afraid it would have burned out long ago.

In rebuilding the edifice of world peace it is not enough, however, that we should strive only for the reassertion of those moral and legal principles which are indispensable to orderly international relations. We are obliged to recognize—indeed, for the past seven years our Government has recognized, and has acted upon the recognition—that no peace can be enduring which does not rest upon solid economic foundations.

You are, of course, broadly familiar with the efforts which our Government has made in the past seven years to re-open the channels of international trade and, in other ways as well, to strengthen the economic foundations of peace. Through the trade-agreements program real progress had been made before the outbreak of the war in Europe. Trade agreements were entered into with a large number of countries, including some of the most important in our foreign-trade relations. Not-

withstanding attempts by self-seeking interests in this country to juggle the facts and to belittle what was accomplished, there is not the slightest question that the agreements entered into were, upon the whole, distinctly beneficial, both in safeguarding our export trade against the inroads of increasing trade barriers in foreign countries and in reversing the process so as to bring about many positive increases in export outlets for products of our farms and factories. The facts to support this statement are so definitely a matter of public record that I need not pause to repeat them.

These results were achieved, however, in the face of tremendous difficulties—difficulties which did not recede as time passed but which, on the contrary, were intensified with the approach and final outbreak of hostilities in Europe. Today, in this sphere, as in others, the picture is by no means comforting. Trade with the belligerent countries has been either shut off completely or—as in the case of Great Britain and her allies—subordinated to the necessities of war. These circumstances have temporarily deprived us of the benefit of some of the most valuable concessions obtained in our trade agreements with certain countries. Still more important, war upon the vast scale which we are now witnessing unleashes tremendous forces the impacts of which upon international trade and international economic relations generally in the more distant future are necessarily uncertain and unpredictable.

But the fact that things look dark and uncertain at this time is no excuse for yielding to an attitude of pessimism and futility. Because the difficulties we confront are great, the challenge is also great. To this Nation, more than to any other single one, circumstances have bequeathed the task of leadership in conserving during wartime, and in re-asserting and extending after the war, those basic policies and principles which are essential to general reconstruction and progress throughout the

world; and in no sphere is this more important than in the sphere of trade.

In the face of this situation, our proper course with respect to trade policy—at least so far as one can see into the future—seems clear. Our first job is to keep the trade-agreements program intact and in operation to the fullest extent that conditions permit. There are many reasons why this should be done.

An important immediate consideration is the fact that, under the trade agreements now in effect, our foreign-trade interests are better safeguarded from the disruptive effects of war conditions than they would be if we did not have the agreements. Our agreements with countries outside the war area are still powerful stimulants to our trade with them; while even those with countries at war from which our trade is not cut off by blockade afford us a better leverage for looking after our interests than we would have in the absence of agreements.

Furthermore, there is no reason at all why it should necessarily be assumed that further extension of the scope of the program is impossible at the present time. In fact, there are urgent reasons why every effort should be made to extend its scope, particularly in the Western Hemisphere. Because of the very large and increasing export balance of this country and the shortage of dollar exchange available to other countries, we are facing a situation which, unless we can find ways of further liberalizing our trade relations and enabling such countries to sell us more goods, is certain to undermine our position as a great exporting and creditor nation. We cannot afford to overlook the unfavorable consequences, from the standpoint both of our export trade and of national defense, of a progressive exhaustion of dollar-exchange resources available to the British Empire in connection with its prosecution of the war. And there are especially urgent reasons from the



standpoint of inter-American solidarity and hemisphere defense why we should lose no opportunity at this time further to improve our trade relations with the other American republics.

Consider for a moment the situation in which the countries to the south of us now find themselves. The difficulties of the international-trade-and-payments position of the 20 other American republics, as a group, have become extremely critical as a result of the war. Partly owing to obstacles which these countries have confronted in making normal purchases from Europe, our exports to them increased from \$490,000,000 during the 12 months ending August 1939 (the year preceding the outbreak of the war in Europe) to \$733,000,000 in the succeeding 12-month period—an increase of \$243,000,000 or nearly 50 percent. Meanwhile, our imports from these countries increased by only a little over 31 percent—from \$469,000,000 to \$616,000,000, an increase of \$147,000,000. In merchandise alone, therefore, our export surplus in trade with these countries increased during the first year of the war from \$21,000,000 to \$117,000,000—or by not far short of \$100,000,000. Their position was still further complicated by a \$17,000,000 decline in net gold and silver shipments to the United States during the same period; and also by a probable increase in net payments due the United States on account of invisible trade items, such as interest, dividends, etc.

The situation of these countries is made far more difficult because of the fact that, owing to the blockage of exchange arising out of Latin-American exports to the United Kingdom, they have practically no important source of free foreign exchange outside the United States. With British war effort preventing the United Kingdom from supplying Latin-American needs in liquidation of such blocked exchange, and with trade cut off from the German-controlled areas, the American republics



are largely unable to meet their import requirements except as they find means of purchasing from the United States. Unless they can further increase their sales to the United States, the eventual outcome must certainly be a heavy decline in our export sales to them.

And so, as matters stand, it comes down to the proposition where, from the standpoint both of safeguarding our future trade interests and of hemisphere defense, we are compelled to make every reasonable effort to improve our trade relations in the Western Hemisphere—and of course elsewhere if we can. We are simply not in a position these days where we can afford to go into spasms over the purchase by our Navy Department of an insignificant quantity of imported canned corned beef from South America. By all means, let us avoid sacrificing the legitimate and reasonable interests of our own producers; but let us not “stop the steamboat to blow the whistle” over things like that. Let us remember that we must think also of the broader interests, the safety and security, of the Nation as a whole, of which we are all a part.

In this connection, I want to take the liberty of quoting once more from a recent address by Chester Davis—a man whose sincere concern for the welfare of American farmers I am sure none would wish to question. I quote:

“Our hemispheric relationships and problems ought to be looked at clearly and courageously by every organized farm group in America. We cannot be military friends and economic enemies with Latin America at one and the same time. Farmers through their organizations must study this problem at once and with care. Economic and military dictatorships are sweeping most of the world’s area into their systems. If we are to keep the Western Hemisphere free from their grasp, the United States and Latin America must learn to work together, to trade together, and to develop together. I hope that the farmer’s voice at the

council table when plans to that end are being studied will be constructive, not obstructive."

So much for foreign trade policy as of today. What of the future?

With the whole world in a state of rapid flux, all statements with reference to the future are subject to qualification in the light of changes which cannot now be clearly foreseen. No man is wise enough to tell you at this time exactly what kind of world this is going to be when hostilities finally cease. Tremendous issues—the fate of millions of people—now hang in the balance. Nevertheless, there are some thoughts with reference to post-war trade policy that I want to leave with you.

There are certain basic principles and policies in the field of trade that are fundamentally sound—so sound that they are mere truisms; and there are others, taking a great variety of forms but coming in final analysis to essentially the same thing, which are fundamentally unsound. It is not mere theory, it is a fact—a truism—that the expansion of international trade to that healthy volume which redounds to the best interests of all countries requires the pursuit of trade policies which encourage the flow of three-cornered, or multilateral, trade. That is the type of policy embodied in the Trade Agreements Act. It is equally a fact, a truism—notwithstanding the strenuous efforts of some of our self-appointed, "super-practical" advisers on foreign-trade policy to refute the obvious—that policies and practices which tend to reduce international trade essentially to bilateral barter inevitably diminish its volume far below the levels essential to world economic health. Such are the great host of trade-diverting and trade-destroying schemes—restrictive quotas and licensing systems, clearing and compensation agreements, and other ingenious and discriminatory devices—which have in recent years infested international trade, sapping the world's economic vitality like so many leeches

If these things be true—and they are true—the main issues in the realm of trade policy which this country seems likely to confront after the war will have to do, not with broad objectives of policy, but with tactics to be pursued in striving for those objectives. So far as the objectives themselves are concerned, it seems obvious that we should not only continue after the war, but should redouble, our efforts to reopen the channels of trade through the pursuit, to the full extent that circumstances permit, of policies and principles which have already been tested and which we know to be intrinsically sound.

The antithesis of these principles is exemplified in the methods of trade which have been pursued by the totalitarian countries. Those methods are well known. They are aggressive in the extreme. They do not rest primarily upon economic considerations; they are essentially politico-military in character, designed to weaken and even to subjugate those countries against which they are directed. They are predicated on the principle not of economic peace but of economic warfare. They are but a part of the comprehensive strategy of total warfare by which—whether in wartime or under cover of a purely nominal peace—the struggle for world domination is being waged by such countries. In the very nature of the case, they involve the complete subordination of individual freedom and initiative in the fields of business, industry, and trade to the will and purposes of government dictatorships. Precisely to the extent that these methods gain ascendancy in the world will the difficulties of going forward with a sound program of trade expansion, based upon the principle of cooperation and mutual advantage, be enhanced.

The trade policies which this country has been pursuing rest upon the principle of equality of treatment and of cooperation. They

seek, by peaceful methods and on a basis of fair dealing, to clear away excessive barriers to trade, to the mutual advantage of all countries. If there is to be a re-ordering of international economic relations at the close of the war upon a basis in which these principles of fair-dealing and of cooperation can flourish, then—as I have said on previous occasions—the situation at that time must be one in which there is maximum opportunity to work for such a settlement and work for it with a reasonable prospect of constructive accomplishment. Certainly there can be no such opportunity in a world where policies of economic, political, and military aggression are in the ascendancy—where there is not even a will to peace.

And so, you see, I have come back to the place where I started. This country is today confronted with a great crisis, involving the future safety and security of our people and of our democratic institutions. We are striving to the utmost to meet this crisis in a manner worthy of a great, free people. With the vision, the resourcefulness, and the courage of a free people, we shall meet it.



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World Crisis  
and the  
American Farmer

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Address by  
**DEAN G. ACHESON**  
*Assistant Secretary of State*

before the  
**FIFTH ANNUAL  
NATIONAL FARM INSTITUTE  
DES MOINES, IOWA  
FEBRUARY 21, 1941**

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## World Crisis and the American Farmer

THIS annual meeting of the National Farm Institute comes at a turning point in the history of this country and of the world. The year in which we are now living will reveal whether we, as a nation, may pursue, unmolested, our destiny as a liberty-loving people; or whether we must face a death struggle for the preservation of our liberties and our independence.

We are today face to face—to use the President's words—with “forces of evil which are bent on conquest of the world”, forces which “will destroy whomever and whenever they can destroy”. And these forces, as Secretary Hull has stated, have made it abundantly clear, by deed and by utterance, “that they are engaged upon a relentless attempt to transform the civilized world as we have known it into a world in which mankind will be reduced again to the degradation of a master-and-slave relationship among nations and among individuals, maintained by brute force.”

Let there be no illusion. For every man, woman, and child in this country—for farmers no less than for everyone else—the issues at stake are so vast that they transcend every other consideration. The defeat of those who are holding the last fringes of Europe against the forces of ruthless aggression would be a reverse to us of incalculable and perhaps irreparable effect. We find ourselves today directly in the path of a hostile alliance which is making the most powerful play in history to control all Europe and Asia and which makes no secret of its ambi-

tions in this hemisphere. Those nations which are resisting the forces of aggression stand today as bastions before us. It seems inconceivable that any American could any longer be so naive as to suppose that, if these bulwarks across the seas were to go down, this Nation would be spared a grim struggle for its very existence, a struggle in which all of the familiar devices of totalitarian warfare would be employed to the hilt against us.

And yet there are some who refuse squarely to face the realities. They delude themselves with all kinds of wishful thinking. They cannot adjust their minds to the facts of the world situation with which this country is now confronted. They consistently ignore the impacts of modern technology upon world relations—impacts which have brought all parts of the world into ever closer geographical proximity. They ignore the manifold forms—cruel and insidious—of totalitarian aggression. They fail utterly to grasp the basic implications of sea power. They comfort themselves with superficial allusions to the great width of the Atlantic Ocean as compared with the English Channel, while failing to recognize that the defense afforded by water is contingent upon control of the sea. They cannot seem to understand that oceans are excellent highways for attack, once they fall under the control of the attacker. In the face of a supreme crisis which threatens our very existence as a free nation, they tell us that we should give our exclusive attention to “putting our own house in order”. They forget that the question which is thrust upon us is whether we shall continue to be the masters of our own household; whether we shall have the opportunity of “putting our own house in order”.

The relentless logic of this situation has necessitated the great efforts being put forth for the national defense. It has been hard for us as a nation to grasp, quickly and fully, the sinister implications for us of the rapid spread of international lawlessness and brigandage. We have

lived so long in security, behind the shelter of friendly sea power, that we have come to think of our security almost as if it were ordained by Providence in recognition of our special merit. In the face, however, of the rapidly unfolding events in Europe and Asia, the overwhelming majority of our people have sensed the real meaning of this struggle for us. That is why they are supporting, with increasing and gratifying unity, all phases of the national-defense program.

Upon one phase of the defense program there has been virtual unanimity from the very beginning of the emergency—and especially since the collapse of France. All of us are agreed upon the urgent necessity of re-arming at the rapidest possible rate, and upon the necessity of gaining adequate time in which to re-arm. The crux of the problem is how best to make our great resources effective in behalf of nations overseas which are battling for their lives, while we gain the precious time which we must have. The only means of gaining that time lies in giving all material assistance to the nations which are fighting aggression so that they can withstand the powerful assaults of the invaders. This is a matter on which the overwhelming portion of our people are now agreed.

Unfortunately, when it comes to actual performance, some who, while professing—no doubt sincerely—to favor all material aid to the victims of aggression, in practice refuse to support adequate and immediate measures to that end. They still cannot believe that we who have had every gift of nature are now denied the most precious of them all—time. There are risks, no matter what we do—but there is the greatest risk, if we do nothing. All of us want to see this country spared the horrors of participation in war. There is no difference on that score. But every American worthy of his salt, first and foremost, is determined to preserve the independence of this Nation of free people at whatever sacrifice.

I am profoundly convinced that our best—indeed our only—chance of safeguarding our interests as a free and independent nation lies in extending adequate and timely material aid to Britain and the other victims of aggression. Unless we do extend effective aid, we shall face, virtually alone, the full impact of totalitarian aggression into this hemisphere. If that situation should arise—as it surely will if the axis triumphs and Britain goes down—the question will no longer be whether this country can keep out of war but how soon and under what conditions a war will be forced upon us.

Another phase of defense which has not been, and must not be, neglected is the establishment of the solidarity of the Americas and a system of continental defense. The protection of the Panama Canal, so essential for our defense, is but one of the many considerations involved. If totalitarian aggression, in all of its sinister forms, is to be kept out of the United States, it must be kept out of this hemisphere.

Fortunately for our present efforts, the good-neighbor policy and the many specific acts which have given it content have laid strong foundations for a solid inter-American front in the present emergency. I can here mention only briefly the work that has been done toward building closer ties—political, economic, and cultural—between the 21 American republics.

In 1933 the Inter-American Conference at Montevideo greatly reinforced the doctrine of non-intervention in the internal or external affairs of other nations and also gave approval and impetus to the liberal principles of trade policy which took concrete form in the United States the following year with the adoption of the Trade Agreements Act. Building upon the foundations laid down at Montevideo, a series of subsequent inter-American conferences—those at Buenos Aires in 1936, at Lima in 1938, at Panamá in 1939, and at Habana last summer—have carried forward the work of creating an effective system of solidarity and collabora-



tion in matters of common concern to the Western Hemisphere. The conferences held since the outbreak of war in Europe—those at Panamá and at Habana—were concerned especially with developing and carrying forward a broad program of hemisphere defense. Growing out of these conferences has come the adoption of a variety of measures designed to present a solid front in the Western Hemisphere against future encroachment of all kinds—military, economic, and cultural—from outside the hemisphere. Of necessity, many of these measures have been concerned with the more immediate aspects of the war-time emergency.

There has, however, been full recognition of the fact that short-term measures are not enough. It is clear that maintenance of the future solidarity of the Americas in the interests of hemisphere defense involves difficult economic problems of a long-range character. The Western Hemisphere, as its economy is organized today, produces vast surpluses of agricultural and other extractive products which have hitherto been disposed of in markets outside the Western Hemisphere. This is a matter of fundamental concern from the standpoint not only of our national defense but also of the particular interests of American farmers. It is of the utmost importance both to themselves and to the entire Nation that farmers in this country acquaint themselves with the problems involved and think them through clearly and with broad vision.

It is obvious that both short-term and long-term measures for alleviating the surplus situation and minimizing its effects are called for; and, as many of you know, much study and effort are now being given to this subject. They include the stimulation of complementary, in the place of competitive, forms of agricultural production in this hemisphere; readjustments of production on the basis of cooperative planning amongst the producing countries; and inter-American cooperation also with respect to

programs for the orderly world marketing of hemisphere surpluses. Also of importance are measures to increase consumption in this hemisphere of things which are produced within the hemisphere. One way of doing this is to reduce trade barriers, as illustrated by the trade agreements now in effect between the United States and 11 of the American republics. Another means is by encouraging healthy industrialization in other parts of the hemisphere, thus creating better-balanced national economies and increased purchasing power among the other republics.

It would be utterly unrealistic, however, to suppose that there is any magic by which this hemisphere—whether as applied to agriculture or any other phase of its economy—can suddenly lift itself out of the rest of the world and blithely charge off the consequences to its profit and loss account. For the fact is that the Western Hemisphere is closely integrated economically with the rest of the world, and particularly with Europe, as a result of the trade and other relationships which have been built up over a long period of years. We can take steps to reduce dependence upon export markets beyond our hemisphere, and we are doing so. But unless we wish to face the prospect of the most violent readjustments in both agricultural and other phases of our economic life, we cannot afford to take a defeatist attitude toward the world situation. We must recognize from the outset that, in spite of all feasible measures, this hemisphere will continue to have a vital stake in the restoration of orderly conditions in other parts of the world on terms which, as Mr. Nelson Rockefeller<sup>1</sup> has recently said, will not only protect the future of democracy but which will make it possible for our surpluses to be fairly and freely sold.

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<sup>1</sup> Coordinator of Commercial and Cultural Relations Between the American Republics.

This hemisphere does not contain the essential characteristics of a self-contained economic area. While pushing forward all feasible measures of sound readjustment, it must, in its own best interests, look elsewhere for market outlets for large surpluses of extractive products. This is true of our country as well as of the other American nations. Unless we would deceive ourselves, we must look forward to the necessity of maintaining access to markets outside the hemisphere which are capable of absorbing large quantities of our surpluses.

This basic fact has important implications from the standpoint of trade policy. It is clear that we shall continue to need access to the markets afforded by the large laboring populations of industrial countries overseas. Vast as is the consuming power of industrial United States, it is not great enough to absorb the agricultural surpluses which arise from our own production plus that of the other American republics. But our access to overseas markets must be such that we do not stand at the mercy of foreign buyers. The prospect of having to sell our surpluses in a Europe which is under the domination of a buyers' monopoly maintained by a foreign dictatorship is one which farmers in this hemisphere cannot afford to face with equanimity. Above all things, this hemisphere must continue to have unrestricted access to the great British market. Should the war end in the closing not only of the continental European market but also of the British market—"closing" except for such limited access as might suit the convenience of totalitarian dictatorship—American farmers will inevitably face severe measures of readjustment, at great sacrifices to themselves and to our entire national economy.

In their own immediate interest as producers, it follows, therefore, that farmers in this country cannot afford to throw up their hands in

dismay and write off the whole European situation as hopeless for the future. The steps which are being taken in this hemisphere to strengthen our position in anticipation of the possible continuance of unfavorable conditions in other parts of the world are obviously all to the good. Meanwhile, however, nothing but harm can come from the adoption of a defeatist attitude—a policy of retreat. American agriculture has a tremendous direct stake in the outcome of the war as it will affect the kind of outside world with which we in this hemisphere and in this country will have to do business in the future.

But the stake of the American farmer in the outcome of the war is much broader than that. Like all other citizens, farmers have a vital interest in the preservation of American independence and American liberty, under conditions which will permit the orderly development of our economic life and hence rising standards of living for our people.

I have already emphasized the threat to our national security which is inherent in the present world situation. Were the aggressor nations to triumph in this war, this Nation would face the necessity of maintaining vast and unprecedented armaments on a permanent basis. There would be no escape from this dilemma. In the final analysis, this stupendous burden must fall upon every element of our population but with crushing effect upon agriculture. Greatly increased taxes and the dissipation of a large part of our national effort in unproductive pursuits would be a dead weight upon the living standards of our people. And you know that that weight falls first upon the food and clothing which come from the soil. With foreign markets closed or controlled, the farmer would find that the expansion of the domestic market which has been going forward for the past eight years would be reversed. He would find here, as the people of Europe have found,

that the alternative is guns or butter, and it would have to be guns.

And so I say to you, as farmers and as citizens: the hour of supreme national trial is upon us—this year and now. The attitudes which we take and the decisions we make in this very year—1941—penetrate to the very fundamentals of the problem of our continued existence as a free and independent nation.

First and last, we are all Americans, and our greatest responsibility today is to preserve for ourselves and our children the great promise on which this Nation was founded and has developed and prospered. We cannot meet this responsibility unless we are willing to play our part in world affairs. We cannot afford to shrink from the realities of our position; and if we falsely attempt to do so, our folly will recoil upon us. These are times which call for vision and courage. Small men with small views cannot do big things. If we become a prey to narrow conceptions and to moral weakness in this great crisis, we shall be false to the greatness of this country which has produced us and all we have and are. Policies of retreat can lead only to national disaster. I beg of each of you to take to your hearts the words which Lincoln said to your fathers in the darkest hours of another national crisis:

“Fellow citizens, we cannot escape history. We of this Congress and this Administration will be remembered in spite of ourselves. No personal significance or insignificance can spare one or another of us. The fiery trial through which we pass will light us down in honor or dishonor to the latest generation. . . . We—even we here—hold the power and bear the responsibility. . . . We shall nobly save or meanly lose the last, best hope of earth.”

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The United States  
In the World Economy, 1940

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Some Aspects of Our  
Foreign Economic Policy

Address by

LEO PASVOLSKY

*Special Assistant to the Secretary of State*

before the

AMERICAN ECONOMIC ASSOCIATION  
NEW ORLEANS, LOUISIANA

DECEMBER 30, 1940



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## The United States In the World Economy, 1940

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### Some Aspects of Our Foreign Economic Policy

THE subject which is under discussion this afternoon should be considered from two broad points of view. It is necessary to examine, first, the position of the United States in the present-day world economy; and, secondly, the position of this country with respect to the world economy which is now, and which will be for some time ahead, in the making.

Both of these aspects of the subject before us are dominated by the existence of wide-spread and still-spreading war. We are in the presence of an armed conflict which not only has suddenly disrupted and distorted preexistent economic relations and conditions, but which is bound to leave a profound imprint on the world economy of the post-war period. Its effects are felt and will be felt for a long time to come by all nations, irrespective of whether or not they are directly involved in the conflict itself.

I propose, accordingly, to describe briefly the impact of more than a year of war upon the international economic relations of the United States. I propose, next, to deal with some basic factors of the outlook for the future, so far as it is discernible at this time.

## I

The most important element in this country's economic relations with the rest of the world is foreign trade. In this field, significant changes have occurred during the war period.

The total values of both our exports and our imports have shown marked increases since the outbreak of war in Europe. Exports rose from \$2,941,000,000 in September–August 1938–39, to \$4,016,000,000 in the corresponding period of 1939–40; and general imports, from \$2,132,000,000 to \$2,625,000,000. However, these global figures conceal important changes in the direction and commodity composition of our foreign trade.

As regards exports, the period has been one of steadily contracting markets in some parts of the world and steadily expanding ones in other parts. From the outbreak of the war, because of the naval-blockade measures taken by the Allied Powers, Germany and the territories formerly comprising Austria, Czechoslovakia, and most of Poland practically disappeared as direct markets for our goods. Starting last spring, a number of European countries, as they became engulfed by German occupation in rapid succession, ceased to be markets for American products. This was the experience of Denmark, Norway, the Netherlands, Belgium, and France. With Italy's entry into the war, our exports to the countries of southern and southeastern Europe have either disappeared or have become greatly reduced.

Today, virtually the entire continent of Europe west of the Soviet Union, as well as some parts of Africa and the Near East, is cut off from the channels of sea-borne trade by the far-flung nature of the British naval blockade. On the other hand, there has been a great expansion of our exports to the United Kingdom,



Canada, and the other parts of the British Empire, as well as a substantial increase of sales to Latin America and the Far East. The British countries alone accounted for over 50 per cent of the billion-dollar increase which occurred in our exports during the first year of the European war.

More than half of the increase of exports was caused by rapidly mounting sales of finished manufactures, reflecting mainly the growing demand for aircraft and other implements of war. More than one third represented semi-manufactures. Crude materials showed a substantial rise. The largest single increase occurred in the exports of iron and steel-mill products. On the other hand, there was a marked decline in our exports of tobacco and of various types of foodstuffs, with the consequent growth of accumulated stocks of these commodities.

Our imports have increased much less than our exports. Here, again, the exigencies of war have played a decisive role. Blockade measures affect the exports of the blockaded countries as well as their imports. The British productive effort has been more and more directed toward war output. These factors have necessarily retarded our imports of finished manufactures. On the other hand, the expansion of our domestic industrial activity has been reflected in increased imports of raw materials. Moreover, with the emphasis in our domestic economy shifting to production for defense, the importation of certain strategic raw materials is being stimulated.

The fact that during the first year of war in Europe our exports expanded by over a billion dollars and our imports by less than 500 millions resulted in a substantial increase of the already large export surplus in our balance of trade. This export surplus amounted to \$1,391,000,000 in September–August 1939–40,

as compared with \$809,000,000 in the corresponding period of 1938-39.

The export surplus was offset mainly by importation of gold, which has been coming into the country at a more rapid pace than ever. During the 12 months preceding the outbreak of war in Europe, our net imports of gold were \$4,061,000,000; during the 12 months immediately following the outbreak of war, they were \$4,632,000,000.

The gold imports came in, of course, in response to other stimuli, as well as the need to pay for purchases of American products. Considering the fact that several of the belligerent countries have been selling some of their American investments, and taking into account other items in our balance of international payments, it is clear that only a relatively small part of the gold shipments has been used for the purpose of paying for goods already purchased. A far greater part came either in search of safety or in preparation for future payments.

Although most of this vast inflow of gold has come from monetary reserves rather than from new production, the war has not so far produced disordered foreign exchanges. This has been so principally because of the existence of stringent exchange control in the United Kingdom and the other British countries and because of the virtual disappearance of trade between the continent of Europe and the rest of the world. On the other hand, the growing severity of exchange control, in the countries directly involved in war as well as in many countries not directly involved, has had serious effects on our trade. From the point of view of our policy in this field, the outstanding development has been the decision to place under license the funds belonging to several European countries which have been overrun in the course of present hostilities.

The increased exports from the United States have been financed without recourse to new

loans. Credits have been extended to several South American countries and some direct investment has taken place there. Small loans have been made to the Scandinavian countries. Some credits have been furnished to China. The total amount, however, has been very small. Under the operation of the Johnson Act, no loans have been made to any of the principal belligerents. Under the Neutrality Act, purchases of war supplies have been on a cash basis.

The operation of the Neutrality Act, as revised shortly after the outbreak of war in Europe, combined with the general effect of war conditions, has had important repercussions upon our shipping situation. Our merchant marine has practically ceased its trans-Atlantic service. Shipments to Europe now take place predominantly under the British flag, and this has resulted in diversion of much of the British and other shipping from their accustomed trade routes. Although our ships have found new opportunities in the Western Hemisphere and elsewhere, our sea-borne commerce experiences many shipping difficulties. As regards the Western Hemisphere, an Inter-American Maritime Conference was recently held in an attempt to find solutions for certain of these difficulties.

## II

Broadly speaking, the foreign economic policy of the United States since the outbreak of war in Europe has been directed toward two main objectives: First, to cushion the impact of war conditions on our domestic economy, so far as it is affected by international factors; and, second, to facilitate the program of national defense which has been rendered imperative by developments abroad. These objectives have been pursued in relation to each other, as well as in relation to other basic policies. Their pursuit has resulted in measures with respect to both exports and imports, some of which have

promoted and some of which have necessarily retarded our foreign commerce.

As regards exports, the first point to be noted concerns the implications and effects of the Neutrality Act, as revised in November 1939. The "cash-and-carry" provision of that act, adopted as a means of reducing the risks of this country's involvement in war, has probably had a retarding influence on our export trade. On the other hand, the elimination of the rigid arms embargo, which constituted the principal feature of the November revision, has rendered possible the exportation of certain important war supplies. These exports not only have helped to sustain our total foreign sales on a high and rising level, but have enabled us to implement the policy of rendering all practicable material assistance to countries which are victims of attack. At the same time, they have been instrumental in building up specialized productive capacity in this country essential to the creation of the instrumentalities of national defense.

Next, with respect to exports, mention should be made of the repeated and persistent efforts on the part of the Government to mitigate in the interest of our commerce the severity of wartime trade controls. While recognizing, of course, that decision as to the operation of such controls, both as regards blockade measures and as regards the choice of commodities permitted to be imported, must necessarily rest with the belligerents imposing them, the Government has sought, through formal and informal negotiations and with a substantial measure of success, to secure the application of these measures in a reasonable manner. In this respect, the existence of trade agreements, especially those with the United Kingdom and Canada, has served an extremely useful purpose. This was also true with respect to France, prior to that country's military collapse.

An interesting feature of our recent export policy has been the abandonment, shortly after the outbreak of the war, of export subsidies on cotton and, more recently, of such subsidies on wheat flour shipped to certain parts of the Far East. War conditions have rendered no longer operative most of the considerations which originally led to the adoption of these measures.

The most striking feature of our export policy during the war period has been the adoption of a far-reaching system of export control as an element of the national-defense program. By an act of Congress, approved July 2, 1940, broad powers were vested in the President to place under license the exportation of various strategic and other essential commodities. By proclamation dated July 2, the President prohibited the exportation of a number of specified articles and materials, except when authorized by licenses issued by the Secretary of State. The licensing actually began on July 5, under a procedure closely resembling that used during the World War by the War Trade Board.

The list of commodities for which export licenses are required has been expanded several times. It comprises such important basic materials as aluminum, many petroleum products, iron and steel scrap, several non-ferrous metals, mica, graphite, mercury, and others. It includes aircraft and aircraft engines, as well as plans and specifications for aircraft and engines; various types of machine tools; equipment and specifications for the production of aviation motor fuel; all arms, ammunition, and implements of war as defined by the Presidential proclamation of May 1, 1937; and many other articles.

All interested departments and agencies of the Government take part in the formulation of policies with respect to the application of export control. These include the Departments



of State, Treasury, Commerce, and Agriculture; the Army and Navy Munitions Board; the Advisory Commission to the Council on National Defense; and the Maritime Commission. In the administration of control, the basic criteria are the interests of national defense broadly interpreted to include continental defense and material aid to Great Britain and other victims of attack. Accordingly, licenses are usually issued more liberally for exportation to the countries of the Western Hemisphere and to the United Kingdom than to other parts of the world.

As regards imports, the appropriate agencies of the Government have been watching carefully the effects of war conditions upon the importation into this country of competitive commodities. In only one instance thus far a special arrangement had to be made, namely, a supplementary trade agreement with Canada, regulating the importation of silver-fox furs.

Activity on the part of the Government has been necessary to insure delivery of some commodities essential to American industry, the obtaining of which has been rendered difficult by the operation of naval blockades. Examples of this are found in cases of graphite, mica, mercury, and other materials.

The outstanding Government activity in the field of imports has been in connection with national defense. As a part of the defense program, vigorous action has been taken to build up stock-piles of what the Army and Navy Munitions Board has designated as strategic and critical materials. A part of the funds appropriated for national defense is being used for this purpose. By special Congressional authorization, the Reconstruction Finance Corporation is also engaged in financing the importation of stocks of essential industrial materials. Stock-piles of tin and other ferro-alloys, of rubber, and of various other commodities are rapidly accumulating.

Another aspect of the national-defense program relating to the import problem consists of efforts to find "new sources close enough to this country so that there may be reasonable expectation that access to them will not be disrupted". This relates primarily to the Western Hemisphere and is a factor of some importance in inter-American economic relations.

### III

Inter-American economic relations occupy a special place and loom large today in the foreign economic policy of the United States. They are an important part of the "Good Neighbor" program for the Western Hemisphere, which is one of the foundation stones of the entire structure of this country's foreign policy and one of the essential features of the national-defense effort.

The basic conception of inter-American relations on which this country proceeds is simple. The 21 American republics have in common certain interests and certain aspirations. Although removed geographically and historically from the conflicts and controversies which are in progress on the other sides of the Atlantic and the Pacific Oceans, the American nations, in view of the character and implications of the wars now going on in Europe and in Asia, have a common and overriding interest in insuring their own security and, if possible, preventing war from reaching their shores. To this end, they must, by common effort, create impregnable means of national and continental defense. Confronted with the present-day challenge to the right of nations to independence and to freedom from intervention in their domestic affairs, the American nations are conscious of the imperative need for individual and common action directed toward the preservation of their enjoyment of that fundamental right.

At the same time, neither the United States nor the other nations of the Western Hemisphere have any desire to isolate themselves from the rest of the world and concentrate their efforts on building up a system based on the concept of national or regional self-containment. They are a part of the world, and their own present and future are inextricably bound up with what happens in the other important areas of the earth. Both from the short-run and the long-run points of view, they have always been, and they are today, vitally interested in the kind of world mankind is to live in, and in making their contribution toward helping to shape relations among all nations along the lines of peace and progress.

Successful effort in all of these directions requires political stability and economic strength within the American nations, and political solidarity and economic cooperation among them. The creation and constant reinforcement of such solidarity and cooperation have been the keynotes of numerous inter-American conferences and of continuous effort through diplomatic, commercial, cultural, and other channels.

In the economic field, a program of cooperative inter-American action to meet the impact of war conditions was inaugurated in September 1939 at the first Consultative Meeting of Ministers of Foreign Affairs of the American Republics, held at Panamá. At that meeting, it was resolved that "in view of the present circumstances, . . . it is more desirable and necessary than ever to establish a close and sincere cooperation between the American republics in order that they may protect their economic and financial structures, maintain their fiscal equilibrium, safeguard the stability of their currencies, promote and expand their industries, intensify their agriculture, and develop their commerce".

To this end, it was decided "to create an Inter-American Financial and Economic Advisory Committee consisting of 21 experts in economic problems, one for each of the American republics". The Committee was duly constituted a few weeks later, and it has been meeting in Washington ever since.

As time went on and as the economic repercussions of war both on the present and on the future became intensified, the obvious need for more and more vigorous inter-American action led to a comprehensive review of the whole problem at the Second Meeting of the American Ministers of Foreign Affairs at Habana in July of this year. The conclusions reached there were summed up in a resolution on economic cooperation, in the "whereas" part of which it was stated that

"... The war now in progress has increased the disruption in the channels of international commerce and the curtailment of markets for certain products of the Americas; the existence of surpluses of commodities, the exportation of which is essential to the economic life of the countries of the Americas, is economically, socially, financially, and in other respects a matter of great importance to the masses of the population and . . . to the Governments of the entire Continent; it must be anticipated that these difficulties will exist as long as the war continues and that some of them, as well as other new ones, will exist after the war ends; and it is of great importance that the economic development of the American countries be directed towards a diversification of their production and, at the same time, towards an increase in their consumption capacity."

The short-run and the long-run objectives of inter-American economic policy were stated as follows in the substantive part of the resolution:

"The Second Meeting of the Ministers of Foreign Affairs of the American Republics  
RESOLVES:

"One. To declare:

"(a) That the American nations continue to adhere to the liberal principles of international trade, conducted with peaceful motives and based upon equality of treatment and fair and equitable practices;

"(b) That it is the purpose of the American nations to apply these principles in their relations with each other as fully as present circumstances permit;

"(c) That the American nations should be prepared to resume the conduct of trade with the entire world in accordance with these principles as soon as the non-American nations are prepared to do likewise;

"(d) That, in the meantime, the American nations shall do everything in their power to strengthen their own economic position; to improve further the trade and other economic relations between and among themselves; and to devise and apply appropriate means of effective action to cope with the difficulties, disadvantages and dangers arising from the present disturbed and dislocated world conditions; and

"(e) That the American nations consider it necessary to maintain or improve the normal economic situation established between them in order to assure the preservation or improvement of the position enjoyed in their respective markets.

"Two. To strengthen and expand the activities of the Inter-American Financial and Economic Advisory Committee as the instrument for continuing consultation among the American Republics with respect to economic and trade matters and arrangements, having in mind especially the immediate situations which must be met as a result of the curtailment and



changed character of important foreign markets. . . .

“Three. Specifically, to instruct the said Committee that it proceed forthwith:

“(a) To cooperate with each country of this Continent in the study of possible measures for the increase of the domestic consumption of its own exportable surpluses of those commodities which are of primary importance to the maintenance of the economic life of such countries;

“(b) To propose to the American nations immediate measures and arrangements of mutual benefit tending to increase trade among them without injury to the interests of their respective producers, for the purpose of providing increased markets for such products and of expanding their consumption;

“(c) To create instruments of inter-American cooperation for the temporary storing, financing and handling of any such commodities and for their orderly and systematic marketing, having in mind the normal conditions of production and distribution thereof;

“(d) To develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned;

“(e) To recommend methods for improving the standard of living of the peoples of the Americas, including public health and nutrition measures;

“(f) To establish appropriate organizations for the distribution of a part of the surplus of any such commodity, as a humanitarian and social relief measure;

“(g) To consider, while these plans and measures are being developed, the desirability of a broader system of inter-American cooperative organization in trade and industrial matters, and to propose credit measures and other measures of assistance which may be

immediately necessary in the fields of economics, finance, money, and foreign exchange."

The comprehensive program of economic action embodied in the Habana resolution was, in large measure, the result of proposals made by the Government of the United States. In placing these proposals before the meeting, Secretary Hull said:

"The Government of the United States of America has already utilized its existing agencies to enter into mutually advantageous cooperative arrangements with a number of American republics in connection with programs for the development of their national economies and by way of assistance to their central banks in monetary and foreign-exchange matters.

"It is now taking steps which will make possible the extension of both the volume and character of the operations of such agencies. When these steps have been completed, the Government of the United States of America will be in a position to expand its cooperative efforts with other American nations in the fields of long-term development and of monetary and exchange matters.

"It will also be able to participate in immediate joint action with other nations of this hemisphere to meet pressing trade situations which may arise before the program outlined has come into operation.

"Finally, it will be enabled to enter effectively into the cooperative program as it proceeds, assisting in the temporary handling and orderly marketing of the important commodities of the hemisphere; implementing, on its part, the commodity agreements which are developed; and carrying out other operations involving such export products."

Several of the steps to which Mr. Hull referred have since been taken. The Congress has increased by \$500,000,000 the funds at the dis-

posal of the Export-Import Bank, these new funds to be used for inter-American economic operations, "to assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere". The bank is now working on specific proposals and requests coming from various American countries. It has already entered into a number of transactions, notable among which has been the extension of credit for financing a steel-mill project in Brazil and the provision of a general credit for Argentina. Conversations between the United States Treasury and other appropriate agencies of the Government, on the one hand, and representatives of several American countries on the other, are in progress with respect to financial, monetary, and foreign-exchange matters. Steps have been taken to increase purchases of strategic materials.

In order to promote the Government's activities in the field of inter-American relations, the President has set up, under the Council of National Defense, an Office for Coordination of Commercial and Cultural Relations between the American Republics. This office is engaged in intensive study of the problems involved and in correlating and stimulating action on the part of the appropriate operating agencies of the Government.

The Government is taking an active part in the work of the Inter-American Financial and Economic Advisory Committee. The presence in Washington of competent economic experts of all the American republics makes for speedier and more effective discussion of specific questions and problems. The Committee has prepared the statute of an Inter-American Bank, which now awaits ratification by the several countries. It has created an Inter-American Development Commission, with official and business participation, as an agency for long-range economic development in the various American

countries. It has set up special groups to study individual export commodities with the view to recommending to the governments measures to be taken with respect to the handling of such commodities. The furthest advanced of these studies relates to coffee, a concrete marketing agreement with regard to which is now pending before the 15 governments concerned. Action with respect to corn has also received extended consideration. Vigorous attention has been given to other phases of the Habana program.

#### IV

The foregoing is, in its salient features, the story of the effects to date of war in Europe on the principal elements of this country's economic relations with the world and of the foreigneconomic policies pursued by the Government of the United States in the light of these developments. From the policy point of view, it is a story of adaptation to conditions some of which are in large measure outside of our control; of effective utilization of available instruments of action in defense of the national interest; and of the forging of new tools to cope with new and extraordinary conditions.

Since no one can foretell when the present war will end, this country is bound to be confronted, for a period of unpredictable duration, with the continued operation, possibly in an increasingly aggravated form, of some of the factors which have thus far influenced its foreign economic relations. It will also, in all probability, be confronted with the rise of new factors. As we look ahead, therefore, it is well to envisage some of the more important of these possibilities and probabilities.

So long as the British naval-blockade measures continue to function, they must necessarily continue to have a dominant influence upon our exports to the continent of Europe and to areas adjacent to Europe. Under these circumstances, it is to be anticipated that our

shipments to virtually the entire continental portion of Europe will remain on an extremely low level. On the other hand, Great Britain's requirements for our products are likely to expand still further.

In connection with Great Britain's purchases of war materials in this country, the question has already arisen with regard to payment for such purchases. As the war progresses, Great Britain is confronted with a double shrinkage of her dollar-exchange resources, resulting from the using up of her accumulated reserves of gold and of dollar securities and from a possible decline of exports to this country. Accordingly, as the President announced on December 17, plans are being worked out under which we would, in our own best national interest, extend appropriate aid to Great Britain in financing her war requirements.

Such action is of obvious and pressing importance in implementing effectively our established policy of giving all possible material aid to Great Britain and of creating, at the same time, in our own country maximum productive capacity in the specialized fields of military supplies. It is also important from a longer-run point of view. In considering, as we must, the problem of the future reconstruction process, it is necessary for us to take serious account of the great difficulties which might arise in that respect if Great Britain's international financial resources should become depleted in the conduct of the war.

As our national-defense program gains momentum, it is to be anticipated that there will be increased emphasis on purchases of essential commodities, especially on the Government account, and probably an extension of the already existing system of export control. The continuation and possible intensification of war are bound to produce greater uncertainty with regard to the accessibility of some important sources of supply of many essential materials.



This will dictate the need of rapid and vigorous action toward increasing our reserves of such commodities. Conservation of these reserves as well as of the domestic production of some essential raw materials may dictate the need of placing more commodities on the export-control lists. The extension of these lists may also result from a growing absorption of our industrial capacity into the military preparedness effort.

While some of our exportable commodities are thus being, and more may be later, placed on a license or even embargo basis because they are needed at home, the exigencies of war trade conditions are bound to create increasing difficulties with respect to certain other exportable commodities, especially in agriculture. As I have indicated, the 16 months of war have already resulted in abnormal accumulations of unsalable surpluses of many of our important exportable farm products. The prospect ahead, so long as war conditions continue to exist, is one of further accumulations or of curtailed production—in neither case a desirable alternative. To some extent, the difficulty will be lessened by increased domestic consumption resulting from expansion of general business activity, caused, in turn, partly by the increased exports of war supplies. But the handling of our agricultural problem growing out of war-time loss of important foreign markets will still represent a formidable task.

The problem of exportable surpluses cut off from their normal outlets is one which we have in common, and will continue to have in common, with our neighbors to the south of us. For them, the problem is even more important and far more acute than it is for us. While some of the American republics are more, and some are less, dependent on overseas markets, all of them taken together normally ship to Europe about one half of their total exports. Our normal sales to Europe are also approximately 50

percent of our total exports. But in our case, because of the great variety of our exports, loss of foreign markets for some commodities may be compensated for, in the aggregate, by increased exports of other commodities, as has recently been the case. The exports of the other American republics are highly concentrated, in the case of some countries consisting overwhelmingly of only one or two products. In our case, because of our ample financial resources, even a diminution of total exports does not mean inevitably an immediate loss of necessary imports. In the cases of the other American countries, unless they can borrow, loss of exports does mean an immediate and often disastrous loss of badly needed imports. Being debtor countries, loss of imports means to them increased difficulty in meeting their foreign obligations. Being financially poor countries, it means, in varying degrees, grave internal difficulties.

Aid to the other American countries, which would enable them to meet the hardships caused by the already existing and prospective accumulations of unsalable surpluses resulting from the exigencies of war conditions, is an important element in our immediate program of inter-American economic relations. The availability or non-availability of such aid may in some instances spell the difference between domestic stability and instability, which is obviously a matter of great concern to us. Aid of this sort may take the form of loans to individual countries which would enable them, by thus supplementing their own financial resources, to handle their particular problems. It may take the form of additional purchases by us. It may take the form of multilateral marketing agreements, financed jointly by the countries concerned and in some cases predominantly by the United States. In connection with such commodity agreements, special action by Congress may be necessary to make possible our participation in them, since they would involve some

measures for the regulation of our imports or exports of the commodities involved.

Because of the lack of variety in the production and exports of the other American countries, the number of commodities which may require action is relatively small. Only a few of them are competitive with our production. While, under certain circumstances, to which I shall presently refer, extraordinary measures with respect to these commodities may have long-range importance, their immediate objective is to relieve the strains of wartime dislocation of world trade routes—strains resulting both in domestic economic difficulties and in shortage of means of payment for foreign purchases, especially from the United States.

Other important elements in our program of inter-American economic relations to which increasing attention is bound to be given in the immediate future may be listed as follows: Promotion of regular trade relations through the conclusion of trade agreements and in other ways; increased purchases in the Western Hemisphere of strategic raw materials; investment in productive enterprises designed to promote the diversification of production especially along the lines of stimulating the output of commodities for which markets can readily be found in the United States or in other parts of the hemisphere, including materials of strategic value; aid in strengthening the monetary and foreign-exchange position of countries which are in need of such assistance; implementation of various other provisions of the Habana resolution.

## V

It is clear that the process of adaptation to conditions largely outside of our control, of effective utilization of available instruments of action in defense of the national interest, and of the forging of new tools to cope with new and extraordinary conditions is bound to continue for some time and to determine the position of

this country in a world economy dominated by war. But while giving our attention to the immediate problems thus brought forward, we must keep clearly in mind long-range objectives and problems. It is of the utmost importance that we look ahead to the time when war will come to an end, and the stupendous task will begin of reconstructing world economy on a peace basis. For our thinking and our action now may have an important bearing upon what happens then.

Just as no one can foretell when the present war will end, so no one can be certain today precisely what forces and what basic ideas will shape post-war international economic relations. But, after all, the range of possibilities is relatively limited. The crux of the problem will lie—in the post-war period, as it did in the period preceding the war—in the choice of trading methods, which in turn will be determined by the underlying policies of the principal trading nations.

During the years immediately preceding the outbreak of war in Europe, two opposing tendencies were operative in the field of international commercial relations. One was the tendency to subject trade to a greater and greater measure of control through the introduction and manipulation of higher and more effective trade barriers. The other was the tendency to liberate trade from the excesses of these ever-growing restraints.

In some of its phases, the restrictive tendency was directed toward the achievement of national economic self-sufficiency. In its extreme phase, it represented a policy of using control over foreign trade as an instrument of political and military power for the attainment of both domestic and international political aims. In either case, the same devices were employed. The most important among these were the following: Prohibitive customs duties; quantitative regulation in its manifold varieties; for-

foreign-exchange control, frequently accompanied by the use of multiple currencies; trading monopolies; barter transactions; bilateral balancing of trade; bilaterally exclusive trade arrangements; and other forms of discriminatory commercial treatment.

The outstanding example of the use of these devices as an instrument of political action was in the case of Germany. By rigid regimentation of the trade process, by drastic selection of imports, and by aggressive policies toward weaker countries, Germany succeeded in making the substantially reduced volume of her international commerce serve the needs of her vast rearmament program and of her general preparations for war. Many countries used the various devices of trade control in the name and for the purpose of economic defense—in most instances as a line of least resistance from the viewpoint of domestic policy. In all cases the operation of the restrictive tendency served to divert international commerce into artificial channels and to reduce both the volume and the economic benefits of trade, with attendant disastrous consequences upon general production, employment, and standards of living.

The other pre-war tendency was based on the concept that the proper function of international trade is to enable each nation to secure the greatest practicable access to the resources of the entire world and the largest practicable outlets for its own surplus production, thereby opening to each nation wider economic opportunities than those afforded by the resources and markets confined within its frontiers—the availability of such opportunities being essential to modern economic organization and to improvement of living standards. Under this concept, international trade, in order to yield the greatest practicable measure of economic benefit, must operate on terms of mutual advantage and on the basis of non-discriminatory treatment.



It stands to reason that, from this point of view, international trade is inevitably reduced in effectiveness when individual nations or groups of nations seek, through the use of excessive and unreasonable restrictions, to shut themselves off into self-contained units, or to monopolize the economic resources of any area, without regard to the burdens which such policies impose upon the peoples of other nations or to the ultimate effects of such policies upon their own people. Trade cannot prosper when attempts at exclusive trade arrangements between pairs of countries or the use of other means of discriminating in favor of some, and against other, countries render difficult a triangular and multilateral flow of commerce, which is necessary if traders are to be able, as nearly as possible, to buy and sell wherever they find it most advantageous to do so. Trade cannot prosper when its financial basis is impaired by instability of foreign-exchange rates, by control over foreign-exchange transactions, or by break-down of a sound structure of international commercial and investment credit.

The pre-war tendency directed toward the removal of these trade-diverting and trade-destroying devices found its clearest expression in the Trade Agreements Program of our Government. Under that policy, a vigorous effort was made to bring about a general reduction of excessive and unreasonable trade barriers and to place international commerce more and more on the basis of reasonable regulation and of the greatest possible measure of non-discriminatory treatment—conditions under which, in the past, world trade had attained its highest degree of development and usefulness.

The 21 trade agreements negotiated by the United States between 1934 and 1939, together with efforts in a similar direction on the part of many other countries, represented substantial headway for the trade-liberating tendency. Like many other peacetime efforts, its scope

became greatly limited by the outbreak of hostilities.

The war has greatly intensified the restrictive tendency. That has been a natural process, since the control devices which that tendency brings into being are, in fact, weapons of economic warfare. Not only the belligerents but all nations have adopted, in varying degrees, militant economic measures. Our own country, as I have indicated, has done so and may have to do more in this respect. But all this does not necessarily mean that, when the war is over, international economic relations will thenceforth inevitably be dominated by this type of trade methods, although it may well mean that the conflict between the two sharply opposing tendencies which were operative before the war will be even sharper in the post-war period.

The nature of the post-war conflict of tendencies as regards methods of international trade and the conditions under which that conflict will take place will depend on a number of factors. Of great importance in this respect will be the extent to which countries which, before the war, were the protagonists of the trade-liberating tendency—and especially our country—succumb to the temptation of embarking, during and immediately after the war, upon policies of trade regimentation and control beyond the temporary needs of current conditions. And, obviously, much will depend upon the outcome of the war itself.

In this latter connection, quite apart from any subjective preferences, hopes, or desires, several possibilities need to be considered in an objective attempt at an appraisal. Such an appraisal must necessarily involve a large element of speculation. But, in times like the present, prudence and wisdom demand, as extremely useful insurance, a visualization of alternative possibilities and preparation for developments which may or may not eventuate.

## VI

From the point of view of commercial policy, the crucial question after the war will be whether or not any of the great trading nations will follow the restrictive trade tendency as a deliberate policy for the attainment of other than economic aims. This would be the case if, as a result of the war, Germany under her present leadership should succeed in establishing and maintaining control over most of the continent of Europe and perhaps over some adjacent areas. In that event she would undoubtedly attempt, as the next immediate step, to organize the territory under her domination into a single economic unit, with Berlin as the focal point. That in itself would be a tremendously important new factor in the world trade situation. But the real extent of its significance would depend upon the methods which the German leaders would choose or find themselves able to adopt with respect to the economic relationship between the area under their control and the rest of the world.

So far as one can tell at this stage, the probabilities are against their choosing the way of thorough-going economic isolation. No area which they are likely to be able to seize by conquest is capable of providing for even a reasonable degree of self-sufficiency. Nor would such a policy be in consonance with their openly expressed ambitions. It is far more probable that the German leaders would attempt, at least for some time to come, to deal with the rest of the world on the basis of the type of methods which they employed for Germany proper before the war: highly centralized and rigorously regimented control of the trade process, combined with aggressive attitude and action in commercial negotiations and arrangements, possibly again as a tool in the service of a policy of further conquest.

If this should happen, the United States would face a grave and difficult situation. Our

foreign commerce would unquestionably decline, and we might find it necessary to adopt temporarily even more far-reaching measures of economic defense than during the war period, while pushing still further our preparations for armed defense. But there is no reason to believe that, as a result of such developments, we, too, would be compelled or would find it advisable to adopt the German trading methods and thus, through our abject surrender, make likely a complete triumph in the world of that economically destructive system.

A situation such as is here envisaged might resolve itself into another war forced upon the world by the leaders of Germany, or it might lead to an economic struggle of great severity. I have no doubts as to the final outcome of either of these conflicts, though one may well shudder in contemplating the price that would have to be paid in either case. I firmly believe that, with sufficient vision and determination elsewhere in the world, Germany, even if successful in the present war to the extent which is here assumed for the sake of discussion, would, unless she decides to risk another and even greater war, find herself in the end compelled by force of circumstance to abandon most, if not all, of her now-favored trading methods—after inflicting great losses and great suffering upon herself and upon the entire world.

I hold this belief for two main reasons. In the first place, there is, in my opinion, serious doubt as to the ability of Germany, through her present methods, to create a powerful economic unit out of the divergent and enslaved portions of her would-be domain. And in the second place, our country is fully capable, in my opinion, of mobilizing enough economic power behind a program of sound economic relations to make reasonably certain that such a program would eventually prevail.

I am convinced that if we, in this country, adhere unreservedly to our own ideas of what

to us are desirable international trade methods and economic relations; if we insist, even at the cost of rejecting ostensible temporary advantages, on dealing as far as possible on our basis of trade; if we exert every effort to make that basis effective over as large as possible an area of the world through cooperation with all nations willing and able to direct their international economic policies toward objectives similar to ours—then there would be more than substantial hope, even under the conditions here envisaged, for an eventual return to economic sanity in the entire world.

From this point of view, our economic relations with the other American nations would be of the greatest importance. Each of the American republics is fully cognizant of the dangers which would confront it if it had to face alone attempts at economic aggression on the part of a Germany in control of vast European areas. In close economic collaboration among themselves, the American nations would possess great economic power—for their own protection and as a factor in the shaping of the post-war world economy. As Secretary Hull said at the Habana meeting:

“The American nations can build a system of economic defense that will enable each of them to safeguard itself from the dangers of economic subordination from abroad and of economic distress at home. It is no part of our thought to obstruct in any way logical and natural trade with Europe or with any other portion of the world, but rather to promote such trade with nations willing to meet us, in good faith, in a spirit of friendly and peaceful purpose, and on a plane of frank and fair dealing. Against any other kind of dealing, we naturally will protect ourselves.”

For this purpose, the program embodied in the Habana resolution would provide an ample foundation. Through commodity arrangements of the kind envisaged there and through



the other types of action provided for, it should be possible for the Western Hemisphere to go far toward attaining both the short-run and the long-run objectives on which the 21 American republics are in agreement today.

If Germany and her partners are not successful in their attempt at wide-spread conquest, if the continent of Europe and the other areas of the world, now conquered or under threat of subjugation by force, are again organized into a number of independent and sovereign nations or, perhaps, into groups of voluntary associations, the factor of economic aggression will be removed. That would be a fact of immense significance, but it would not, of itself, mean an immediate and automatic return to desirable forms of international economic relations. There would still be necessarily an extremely difficult period of transition from war to peace, during which many extraordinary measures and policies would be retained from the war period and, perhaps, some new ones introduced. Even given universal willingness and determination to restore the world economy as speedily as possible to a peaceful basis, there would still be the tremendous task of re-directing basic policies toward the reestablishment of friendly and constructive international relations.

In this eventuality, too, an economically collaborating and, therefore, economically strong Western Hemisphere, sincerely devoted to the ideal of economic cooperation for the mutual benefit of all concerned and ready to take a position of leadership in abandoning, as quickly as circumstances permit, such excessive restraints on trade as may be forced by the distortions and disruptions of abnormal international relations, will be a factor of great importance.

Through its own policy and action, through its whole-hearted participation in a system of inter-American collaboration, and through cooperation with all nations seeking the same objectives, the United States can and should, in its

own interest, play a role of great importance in the post-war economic situation. The essential elements of that role, in my opinion, should be: (1) adherence to the basic ideas of sound international economic relations, to the establishment of which this country made so marked a contribution in the years immediately preceding the war; (2) firm determination to help translate these ideas into practical realities; and (3) willingness to use for that purpose its great economic and financial resources.

In my discussion, I have excluded the eventuality of our participation in war, either in the immediate future or later. But I am certain that, even if that should unhappily occur, the basic considerations of our foreign economic policy which I have attempted to set forth would not be altered.

It goes without saying that, during the war or after the war, we must do everything that is necessary to protect our national interest and to promote the well-being of our people. In the difficult and perilous times through which we live, we must be prepared, so far as is humanly possible, to meet any contingencies that may confront us. But in so doing, we must constantly keep before our eyes the basic objectives which we seek to attain. And we must handle our day-to-day problems and decisions in such a way as to make least difficult, later on, the attainment of these all-important objectives.



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# Post-War Commercial Policy

Address by

SUMNER WELLES

*Under Secretary of State*

before the

NATIONAL FOREIGN TRADE CONVENTION  
NEW YORK, NEW YORK

OCTOBER 7, 1941

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# Post-War Commercial Policy

I DEEPLY appreciate the opportunity to-night of being the guest of the National Foreign Trade Council, and of being permitted in this personal way to express my ever-increasing recognition of the public-spirited and invaluable service which has been rendered the people of the United States by the Council during these past years. I know of no comparable organization which has made a more outstanding contribution. It has throughout its existence, as was right and fitting, jealously maintained its character of complete independence as a private body, but it has, nevertheless, never failed to cooperate along helpful and complementary lines with the Government in those fields of endeavor in which the Council was primarily interested.

I think I can say with full assurance that, in the increasing gravity of the situation in which our country finds itself, the Government will have to depend ever more fully upon the constructive assistance which the Council can so ably render.

Those in attendance at this Twenty-eighth National Foreign Trade Convention are directly interested in foreign trade. But every citizen of the United States, while perhaps individually only indirectly concerned, is nevertheless vitally affected by our foreign commerce. The prosperity of our country, the level of employment, the best interests of labor and of the consumer, and the living standards of our people depend to a very great extent upon the condition of our foreign trade.

We are all of us concerned even more deeply because the creation of conditions favorable to peaceful and profitable trade between nations is one of the cornerstones of the enduring peace which we so earnestly hope may be constructed in the place of the social wreckage and economic ruin which will inevitably result from the present war.

A very brilliant English statesman who died prematurely a few years ago once said, "It is to be specially noticed that there have nevertheless almost always existed men who sincerely, but very foolishly believed, firstly, that no war would arise in their own day, and, secondly (when that war did arise), that for some reason or other it would be the last. At this point the idealist degenerates into the pacifist; and it is at this point consequently that he becomes a danger to the community of which he is a citizen."

I cannot resign myself to that admission of human incapacity—I cannot concede the inability of man to shape his destiny, under divine guidance, into something better than the kind of world in which we now live—I cannot believe that a world society of order, of security, and of peace, may not be realized, provided those responsible for its planning are willing to make the sacrifices required and are able to construct its foundations upon the rock of right, of justice, and of scientific truth, rather than upon the sands of selfishness, of compromise, and of expediency.

It is not idealism that is the danger to the community. Grave danger does lie in the all-too-frequent unwillingness of the idealist to grasp the hard facts of national and international experience; but it lies equally in my judgment in the defeatist philosophy of the cynic who, because of the failures of the past, cannot envision the successes of the future.

It will help us to keep our perspective if, from the vantage point of the present, we frequently look back over the list of errors of omission and of commission of the past.

Let me make a few brief statements with regard to recent history, which, I hope you will feel, as I do, should be regarded as axiomatic.

Trade—the exchange of goods—is inherently a matter of cooperation, but a glance at the past is enough to show that in the policies of nations this simple truism has been more often

ignored than observed. Nations have more often than not undertaken economic discriminations and raised up trade barriers with complete disregard for the damaging effects on the trade and livelihood of other peoples, and, ironically enough, with similar disregard for the harmful resultant effects upon their own export trade. They have considered foreign trade a cut-throat game in which each participant could only profit by taking undue advantage of his neighbor. Our own policy at times in the past has, as we all know, constituted no exception.

After the last war, at a time when other countries were looking to us for help in their stupendous task of economic and social reconstruction, the United States, suddenly become the world's greatest creditor nation and incomparably strong economically, struck heavy blows at their war-weakened, debt-burdened, economic structures. The shock was heavy, morally as well as economically. The harmful effects of this policy on the trade, industry, and conditions of living of people of many other foreign countries were immediate. Our high-tariff policy reached out to virtually every corner of the earth and brought poverty and despair to innumerable communities.

But the effects on American importers, and on American industries dependent upon imports, were likewise immediate.

Unfortunately, the inevitable effects on our export trade were obscured and put off for a number of years by lavish foreign lending, both public and private. The most important normal source of foreign purchasing power for American exports—other countries' exports to us—was being dried up, but what was really happening, as we all know, was that countless American investors were in effect paying American exporters for billions of dollars' worth of goods sent abroad. If the deficiency in normal foreign purchasing power derived from sales in this country had not been covered up by such vast sums advanced by American investors, we

might have realized much earlier that our tariff policy was striking at the very roots of our entire export trade. We might have avoided the colossal blunder of 1930 and the less serious, but equally misguided action, of further tariff increases under the guise of the so-called excise taxes in 1932. Many foreign countries, which had not recovered from the shock of our tariff increases in 1921 and 1922 and were tottering on the brink of economic and financial collapse, were literally pushed into the abyss by our tariff action of 1930. Throughout the world this withering blast of trade destruction brought disaster and despair to countless people.

The resultant misery, bewilderment, and resentment, together with other equally pernicious contributing causes, paved the way for the rise of those very dictatorships which have plunged almost the entire world into war.

When human beings see ahead of them nothing but a continuation of the distress of the present, they are not apt to analyze dispassionately the worth of the glittering assurance of better times held out to them by a self-styled leader whom they would under more normal circumstances recognize as the shoddy adventurer which in reality he proves to be.

We thus helped to set in motion a whirlpool of trade-restricting measures and devices, preferences, and discriminations, which quickly sucked world trade down to such low levels that standards of living everywhere were dangerously reduced. Faced with the disappearance of markets in the United States for so many of their exportable products, foreign countries were forced to cut their economic cloth accordingly. They erected high tariffs and established restrictive quotas designed to keep their imports of American products within the limits of their reduced dollar purchasing power. They sought desperately for other markets and other sources of supply. In the process they entered into all sorts of preferential arrangements, resorted to primitive barter, and adopted

narrowly bilateralistic trade-and-payments arrangements.

Obviously the totalitarian governments then being set up seized avidly on the opportunity so afforded to undertake political pressures through the exercise of this form of commercial policy.

They substituted coercion for negotiation—"persuaded", with a blackjack. The countries thus victimized were forced to spend the proceeds of their exports in the countries where such proceeds were blocked, no matter how inferior the quality, how high the price, or even what the nature might be of the goods which they were thus forced to obtain. They were prevented by such arrangements from entering into beneficial trade agreements with countries unwilling to sanction discriminations against their exports. By no means the least of the victims were the exporters of third countries, including the United States, who were either shut out of foreign markets entirely or else only permitted to participate on unequal terms.

This time our own export trade, unsupported by foreign lending on the part of American investors and unprotected against countless new trade barriers and discriminations, was immediately disastrously affected. Belatedly we recognized our mistake. We realized that something had to be done to save our export trade from complete destruction.

The enactment in 1934 of the Trade Agreements Act represented a new deal for our foreign trade; a reorientation of government policy on the basis of simple, obvious facts, one of the most simple and obvious being that a nation cannot continue to sell if it does not buy. I do not need to dwell on this phase. You who are meeting here have recognized in repeated resolutions of endorsement the merits of that policy and the simple truths upon which it is founded.

To that policy history will always attach the honored name of Cordell Hull. But time is



required for such a reversal of policy to have its full effects, and in the meantime another shattering world war has again laid the whole international economic structure in ruins, and has enormously increased the task of reconstruction.

So much for the past.

For the people of this country the supreme objective of the present before which every other consideration must now give place is the final and complete defeat of Hitlerism.

We have been forced in self-defense to assure ourselves that the ever-growing menace to our free institutions and to our national safety cannot and shall not prevail.

For that reason the trade problems of the immediate moment have largely become problems arising out of our national emergency. As such their solution is imperative. You who are living daily with these problems before you are the last people who need to be told in any detail what they are. The function of foreign trade under present conditions is largely one of supplying the defenders of human liberty with the means of their defense, and of obtaining, despite the shortage of shipping, the materials needed in carrying out our own defense program and in supplying the needs of our consumers.

There is likewise the acute problem of the essential import needs of our sister republics of this hemisphere which are largely cut off from European sources of supply. Far too little emphasis, I regret to say, has as yet been placed upon the vital obligation of this country to cooperate to a far greater practical extent than has as yet been the case in assisting to the fullest degree possible our neighbors of the Western Hemisphere in the maintenance of their own national economies in the ever-increasing dislocation to which they are subjected.

There is also need for additional trade agreements which will help during the emer-

gency and which will assist in establishing a sound foundation for international trade after the war. Your Government intends to go forward with this program.

But the future no less than the present presses itself upon our attention. It seems to me that there is nothing more urgently demanded than that the people of the United States, the governments of the Western Hemisphere, and the governments of all of the nations which have been assailed or menaced by the Axis Powers should daily be considering and determining upon the policies and practices whose future enforcement could render the greatest measure of assurance that the tragedy which we now see being unfolded should not once more be brought to pass.

I can conceive of no greater misfortune than that the people of the United States and their Government should refrain from devoting themselves to the study of reconstruction until the end of the war; than that they should permit themselves to adopt the passive policy of "wait and see".

The period following the present war will be fully as critical for us as is the present crisis. Forces of aggression now menace us from without. But dangers of another nature here and elsewhere will threaten us even after the war has ended in the victory of Great Britain and her allies over the powers that are seeking to place the whole of the world under their own ignominious form of tyranny.

There exists the danger, despite the clear lessons of the past, that the nations of the world will once more be tempted to resort to the same misguided policies which have had such disastrous consequences. And in the economic field especially there is danger that special interests and pressure groups in this country and elsewhere will once again selfishly and blindly seek preferences for themselves and discriminations against others.

The creation of an economic order in the post-war world which will give free play to individual enterprise, and at the same time render security to men and women, and provide for the progressive improvement of living standards, is almost as essential to the preservation of free institutions as is the actual winning of this war. And the preservation of our liberties—all-important in itself—is essential to the realization of the other great objective of mankind—an enduring peace. There can be no peace in a Hitler-ridden world.

In brief, in my judgment, the creation of that kind of sound economic order which I have described is essential to the attainment of those three great demands of men and women everywhere—freedom, security and peace.

The stakes are therefore tremendous in the task to which we must earnestly set ourselves. All of the talent of such organizations as this great organization of yours, of research institutions, and of the agencies of government, must be brought to bear upon the solution of the post-war economic problems.

These problems are of two kinds: those which will present themselves as the immediate aftermath of the war and those involved in the creation of a more permanent economic order.

In the immediate post-war period the task will primarily be one of reconstruction. Food and material of all kinds will be sorely needed. Both humanitarian considerations and self-interest require that we cooperate to these ends to the fullest extent of our ability. So long as any important part of the world is economically sick, we cannot be well.

Plans for meeting these requirements are already being considered. In planning commodity agreements for stabilizing prices of basic commodities, such as the wheat agreement now under consideration by several of the producing countries directly concerned, these unusual post-war needs must be kept in mind in order that adequate supplies may be available to meet them.

Both from the standpoint of immediate post-war needs and in the longer-range aspect, we must give serious attention to the problems of nutrition. Here again humanitarian considerations and self-interest combine to make this subject one of outstanding importance to our people. If the dietary needs of the world's population could be satisfied to the extent necessary to meet minimum standards for sustaining health, the burdensome surpluses which normally trouble producers of many staple products would disappear. I am glad to be able to assure you that this subject is being given preferential attention by agencies of this and other governments.

These are some of the problems with which we shall be faced immediately after the war. But the basic problem in establishing a new and better world order is to obtain the application by the nations of the world of sound principles of commercial and economic policy.

The basic principles which, in my judgment, should guide the policies of nations in the post-war world have recently been enunciated in the eight-point joint declaration of the President and Mr. Churchill<sup>1</sup> at the historic meeting of the Atlantic.

This set of basic principles, appropriately called "The Atlantic Charter", deals with commercial policy in its fourth point which reads, "They will endeavor, with due respect for their existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

This categorical statement of the essentials of post-war commercial policy requires no interpretation. I should, however, like to emphasize its meaning and significance.

The basic conception is that your Government is determined to move towards the

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<sup>1</sup> *Department of State Bulletin*, August 16, 1941, p. 125.



creation of conditions under which restrictive and unconscionable tariffs, preferences, and discriminations are things of the past; under which no nation should seek to benefit itself at the expense of another; and under which destructive trade warfare shall be replaced by cooperation for the welfare of all nations.

The Atlantic Declaration means that every nation has a right to expect that its legitimate trade will not be diverted and throttled by towering tariffs, preferences, discriminations, or narrow bilateral practices. Most fortunately we have already done much to put our own commercial policy in order. So long as we adhere and persistently implement the principles and policies which made possible the enactment of the Trade Agreements Act, the United States will not furnish, as it did after the last war, an excuse for trade-destroying and trade-diverting practices.

The purpose so simply set forth in the Atlantic Declaration is to promote the economic prosperity of all nations "great or small, victor or vanquished". Given this purpose and the determination to act in accordance with it, the means of attaining this objective will always be found. It is a purpose which does not have its origin primarily in altruistic conceptions. It is inspired by the realization, so painfully forced on us by the experiences of the past and of the present, that in the long run no nation can prosper by itself or at the expense of others and that no nation can live unto itself alone.

No nation's peace can be assured in the disordered world in which we have lived since 1914.

It is the task and responsibility of every one of us, and like-minded people everywhere, to see that our objective is attained.

We cannot afford to repeat the tragic mistakes of the past.





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# The Problem of Economic Peace After the War

Address by

LEO PASVOLSKY

*Special Assistant to the Secretary of State*

delivered at

DELAWARE, OHIO

MARCH 4, 1942



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# The Problem of Economic Peace

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### I

FOR the second time in the lifetime of many of us, mankind will some day be confronted with the Herculean task of rebuilding the fabric of international relationships shattered by a world war. Our country and all nations associated with us in the present conflict are resolved that the brutal forces of conquest and domination will be utterly destroyed. We must be equally determined that, once the earth is freed from the menace of these sinister forces, international relations must and will be so organized as to be an open and unobstructed highway of human progress toward an enduring peace among nations, based on justice and on order under law, and toward an increasing measure of economic and social welfare for the individual everywhere.

The winning of the war is but the first stage in the winning of the peace. Wars are not fought for their own sake, but for the sake of determining which of the protagonists will shape the peace that follows.

In the last post-war period, the nations which, through untold sacrifice of life and treasure, established their right to shape the peace failed to take positive action necessary for fulfilling the vast responsibility which thus devolved upon them. The two unhappy and uneasy decades which elapsed between 1919 and 1939 were characterized by a fatal drift toward a new and greater disaster—a drift which went on in spite of many efforts to arrest it and to reverse it.

After this second world war, the central problem confronting mankind will be exactly the same as that which confronted us after the last war. That problem is dual in character.

First, to create a system of international political relationships which would offer a reasonable hope for the preservation of a just peace among nations with the least practicable diversion of economic effort to the maintenance of armed forces; and

Second, to create, domestically and internationally, economic conditions which would make possible a progressive movement toward an efficient utilization of the human and material resources of the world on a scale adequate to insure the greatest practicable measure of full and stable employment accompanied by rising standards of living everywhere.

These basic objectives were stated clearly in the Atlantic Declaration of last August. They were re-endorsed in the Joint Declaration of the United Nations of two months ago.

The two objectives are closely interrelated. Sound economic policies will be impossible without confidence that peace will prevail and without assurance that the burden of armaments will be reduced to manageable proportions. But peace will be precarious at best, unless there exists for it a sound economic foundation. Both objectives, therefore, must be pursued simultaneously.

The full attainment of both of these objectives will necessarily be a long process, proceeding in a series of stages. What is important is that progress in each field be such as to reinforce progress in the other. And progress will have to be measured in terms of the speed and effectiveness with which appropriate machinery is set up in each field.

I shall not deal in this address with the machinery which will be necessary for the attainment of the political peace objective. On the assumption that such machinery will be created, I shall focus my attention on the types of action which will be involved in the creation of the necessary economic machinery, especially in the international field.

## II

At the risk of giving you a rather dull quarter of an hour, I shall recite at the outset some of the basic economic considerations involved.

International economic relationships are numerous and varied in character. Nations exchange physical commodities, either as raw materials or as processed goods. They render

each other a large variety of services. Some nations make loans to others, and the borrowing countries discharge their obligations.

The importance of all these relationships arises from the fact that we live in a world in which natural wealth, technical skills, and financial strength are so distributed over the surface of the earth that each nation possesses a surplus of some of the things which some other nations lack; and no nation, however large, possesses in adequate measure all of the elements that constitute the material foundations of economic well-being. No nation can hope to provide for its population even the necessities of modern life if it has access solely to its own resources. Nor can any group of nations—unless, indeed, it comprises almost the entire globe—hope to attain in isolation nearly as high a level of well-being as it can when the economic interdependence of nations is translated into a world-wide system of peaceful and mutually beneficial exchange of goods and services, through which alone each nation can have as satisfactory an access as may be practicable to the resources of the entire world.

International trade is the process by which nations exchange physical commodities. Apart from the exchange of services which are of relatively lesser importance, it is the instrument by means of which nations with undeveloped natural resources or insufficient financial strength secure capital from wealthier nations and by means of which they eventually repay their obligations. Hence, trade is by far the most important of international economic relationships and is, in fact, basic to all the others.

When nations deliberately move in the direction of national or group self-sufficiency, or when they, for any other reason, adopt policies which obstruct international trade or impair its efficacy, they find themselves correspondingly compelled to curtail or leave undeveloped some of their relatively most efficient branches of production; to expand, if they can, some of their relatively less efficient ones; and to create, again if they can, branches of production for



which their conditions are not as well adapted as are conditions in some other areas. By doing this, they not only deprive themselves of the benefits of international exchange but necessarily force other nations to do likewise. The net result is reduced productivity all around and an inexorable lowering of the standards of life everywhere.

International trade, moving as nearly as may be practicable along the channels of natural advantage and of mutual benefit to the parties concerned, is the foundation of economic peace and an indispensable element in the promotion of human welfare. International trade, obstructed by excessive barriers and forced into artificial channels, is the most potent instrument of economic war, which serves inexorably as a depressant of human welfare.

Thus international economic relations are not an end in themselves. They are rather an integral part of the whole complex of economic activity whereby the material wants of man are satisfied, and in the efficacy of which international economic relations are a determining economic factor.

In a world organized along national lines, much of that activity is necessarily domestic, and economic progress is obviously impossible without appropriate domestic policies and measures. But it is equally impossible in conditions of economic war. Its mainsprings lie solely, neither in the field of domestic action nor in the field of international action, but in a proper combination of the two.

The basic requirements of economic progress are expansion and improvement of production and increase of international trade, which are primary prerequisites of increased consumption. Increased production and increased trade are themselves inescapably interdependent factors. In the long run, neither is possible without the other, but neither flows automatically from the other.

The expansion and improvement of each country's productive facilities and the creation of other conditions conducive to increased con-

sumption require many domestic policies and measures. To the extent to which such policies and measures are successful, they of course stimulate international commerce. But domestic action cannot be fully successful unless it takes place in conditions in which the trade process itself is not prevented, by inappropriate international policies, from making its indispensable contribution to growing production and growing consumption. The creation of these conditions is a task of international collaboration in a number of fields of international economic relationships.

### III

Both theory and experience lead to the conclusion that international trade increases in its economic usefulness in proportion as the policies and arrangements under which it functions are such as to enable each nation, as nearly as may be practicable, to sell its surplus production and to obtain the surplus products of other nations wherever this can be done most advantageously. This does not and need not mean completely free trade, in the sense of a total absence of trade regulation. That concept requires, for its realization in the international field, the existence of many complex conditions which do not obtain today and are not likely to obtain in any discernible future. Moreover, practical experience indicates that the attainment of a relatively high degree of expanding economic prosperity for all countries, so far as it is determined by international commerce, does not require completely free trade as one of its indispensable prerequisites. What it does require is a large measure of flexibility in trade movements. This is possible only when the trade process is regulated predominantly by such methods as reasonable tariffs—and not by quantitative controls and other devices that cause an artificial channelization of trade movements—and when it functions on the basis of a system of multilateral, rather than bilateral, balancing of the international accounts of individual countries.

A bilateral system is one under which a country pays for its imports with currency which is good only for purchases from it or for the discharging of other obligations to it alone. A multilateral system is one under which a country's proceeds of sales to another country become available for purchases from, or the discharging of other obligations to, any country. Since trade and all other international transactions—the results of which comprise for each country its balance of international payments—are expressed in terms of money, and since each country has its own monetary system, multilateral balancing of international accounts is possible only when national currencies are freely interchangeable at stable exchange rates.

Interchangeability of currencies and stability of foreign-exchange rates can be maintained only between countries, each of which possesses at all times either a sufficient supply of foreign currencies to meet demands for such currencies or the ability readily to obtain foreign currencies. The supply arises out of export of goods, rendering of services, earnings on loans and investments in other countries, and borrowing. The demands arise out of imports of goods, payments for services rendered by other countries, debt payments, and lending.

In order that the foreign-exchange process—that is, the purchase and sale of foreign currencies—may function smoothly, each country needs reserves of foreign currencies or ability to replenish its reserves when necessary. Such replenishment is accomplished by borrowing or by liquidation of foreign investments, where there are any; under the gold-standard system, exports of gold provide an additional and very convenient method of replenishing reserves of foreign currencies. The reserves serve the role of a revolving fund to provide for temporary lack of balance between the supply of and the demand for foreign currencies. The stability and interchangeability of a country's currency is endangered or destroyed when its total international outgo tends to exceed its total interna-

tional income and thus to deplete its available reserves.

This situation may result from that country's own action or from the actions of other countries, or both. It may arise as a consequence of domestic policies or of international policies. And the factors involved in the maintenance of currency stability and interchangeability are so closely interdependent that they affect each other immediately and therefore retard or promote the functioning of the multilateral system.

Inability to compete internationally, or unwillingness to make the adjustments necessary for that purpose, has been a frequent cause of trade restrictions; while trade practices which obstruct commerce or which cause artificial diversion of trade have often been responsible for foreign-exchange controls or unstable foreign-exchange rates. Deliberate alterations of exchange rates have been resorted to as a means of improving a country's international competitive position or as an instrument of domestic policy. Foreign-exchange controls have been imposed as a method of equilibrating the balances of payments, especially by debtor countries. Commercial and monetary policies of this type have obstructed useful movements of capital, while unsound investment and credit policies have often led to trade restrictions and monetary instability. Unsound fiscal policies have frequently caused flights of capital and thus resulted in break-downs of monetary stability.

Singly or in combination, these and many other factors, too numerous to be treated within the scope of this address, inevitably weaken the multilateral system, create a tendency toward bilateralism, and, in extreme cases, result in attempts to turn deliberately to a system of bilateral balancing. Their most important result is that they impair international trade and, therefore, have adverse effects on production and consumption everywhere. Under multilateralism, trade trends to be flexible and, therefore, to flow along the channels of natural advantage.



Under bilateralism, trade tends to be rigidly and artificially channelized. Multilateral balancing, therefore, allows a broad scope for free enterprise and a widening of economic opportunity, and thus provides a foundation for policies and measures designed to promote economic stability accompanied by rising living standards. Bilateral balancing imposes trade regimentation, narrows economic opportunity, and makes economic stability possible only on the basis of lowered living standards, if at all.

The creation after the war—as rapidly as possible and as fully as possible—of conditions indispensable to a system of world trade operating on the basis of a substantial freedom from obstructive regulation and on the basis of multilateral balancing of international accounts will be an urgent requirement for all countries, including our own. Unless that need is met, production and trade will stagnate everywhere, no matter what other measures are taken, and living standards will suffer in consequence.

In this fundamental respect the situation after the present war will be no different in character, but far more difficult, than was that which existed after the last war. And there will be one new factor of the utmost importance. After this war more will be expected of the reconstruction process than was the case after the last one. A greater emphasis than ever before is being placed on the so-called “social objective”. Governments everywhere will have to make good their present promises to create conditions of economic security and higher levels of individual well-being.

These are, unquestionably, attainable objectives, in terms of the availability of basic resources and the possibilities of a proper utilization of these resources. But their actual attainment will depend on the type of basic policies which are adopted and resolutely pursued.

It was in the field of these policies that lay the principal mistakes and failures of the last post-war reconstruction effort. The dangers inherent in a repetition of these failures will be far greater than they were then. After this



war mankind will be even less able to afford the mistakes made after the last war.

It is well, therefore, to recall briefly what happened during the last post-war reconstruction effort and the whole interval between the two wars.

#### IV

The world emerged from the war of 1914-18 in a sorry economic state. National currencies were in a disordered condition. International trade was fettered by restrictions carried over from the war period and by new barriers rising on all sides with the rapidity of mushroom growth. Production was disorganized in many areas. Many countries were in great need of imports, for which they had no way of paying. Chaotic public finance prevailed in most parts of Europe. A greatly increased load of international debt weighed on many countries, and astronomical sums were being assessed on the reparation account.

The post-war reconstruction effort required action in all these fields. It was successfully undertaken only in some.

Imports were provided where they were urgently needed, partly on the basis of relief but mostly on credit; the necessary financing was done largely by the United States and Great Britain, but also to some extent by France, the Netherlands, Sweden, Switzerland, and Canada. Over a period of a few years the stability and interchangeability of national currencies were reestablished. Fiscal conditions were greatly improved in most countries. After the initial post-war difficulties of internal organization were overcome, production began to recover in most areas where it had been badly disorganized.

All these were indispensable both for immediate reconstruction and as foundations for further economic advancement. But they obviously were not enough. Action was also needed in several other essential phases of the reconstruction process, and these, unfortunately, were almost completely neglected or worse.

In the all-important field of international trade relations the dominant note was a steady growth of exaggerated protectionism. In the early post-war years the United States led the way through the enactment of the McCumber-Fordney tariff. In the middle twenties the protectionist impetus came largely from Europe, especially from Germany. In 1928 we again took the lead by inaugurating our preparations for what became the Hawley-Smoot tariff. Greater and greater obstacles were placed in the way of imports; and, since one nation's imports are the exports of another or other nations, the total volume of international commerce was prevented from undergoing an adequate expansion.

The inadequate volume of world trade and the commercial policies pursued in the post-war period rendered illusory any hope that a stable international financial structure could be created. Debtor nations could not develop a sufficient volume of international income out of which to meet their debt payments because they found their sales opportunities limited by the restrictions which creditor nations were placing on imports.

The existence of a vast body of international indebtedness bequeathed by the war, which included enormous reparation payments, was in itself a source of acute maladjustment. We shut our eyes to the simple but crucial fact that war-time lending is always governed by a variety of considerations, peculiar to the abnormal conditions of war, which no longer apply in time of peace and which should be given due weight in determining the liquidation of the resulting obligations. Even if sound economic policies prevailed in the world at the end of the last war, the volume of international trade could scarcely have risen fast enough to provide a vehicle for a satisfactory liquidation of war debts, superimposed as they were on the already existing and currently created debt obligations. It is far more likely that, under the most favorable conditions, attempts to collect the war debts, because of their magnitude and because they

had been incurred in the process of destruction, would have been a seriously retarding factor. As it was, they proved to be a strangling dead hand.

In many countries, especially of Europe, a greater and greater share of economic effort was directed into the field of armaments. In many countries much economic effort was wasted in unproductive enterprise. Technological progress was going on rapidly in some countries and slowly in others, and this fact made it difficult for the lagging countries to maintain their international competitive position. Little attention was given to the development of economically backward areas. Inadequate attention was given to the distribution of national income. The volume of useful production and the volume of consumption, retarded by the commercial policies which were being pursued, were still further held back by these and other domestic factors.

Each nation pursued its economic policies, both domestic and international, in jealously guarded independence from the rest of the world. International economic conferences were conspicuous for an almost complete non-existence of cooperative effort and a resulting absence of constructive achievements.

Into this world of contradictory and discordant policies, several countries—most of all, the United States—poured capital funds on a vast scale. During the first post-war decade we exported huge amounts of capital to various parts of the world in the form of loans and investments. Great Britain was also an exporter of capital on a large scale. France sent abroad large amounts of capital in the form of short-term investments. To a lesser extent capital was exported by Holland, Switzerland, and Sweden.

All these movements of funds created an artificial prosperity in both the lending and the borrowing countries and enabled the latter to maintain a precarious solvency. In fact, a large part of the movements of capital merely made it possible for the debtor countries to meet their cur-

rent debt payments, which, of course, constantly increased the volume of their total obligations.

In our case, foreign lending enabled us to maintain our exports at a relatively high level, while we put formidable obstacles in the way of our imports. In these circumstances—since we insisted at the same time upon collecting interest, dividend, and amortization payments owing us on both the war and the non-war debt accounts—a substantial part of our foreign loans served solely to provide the rest of the world with dollars for meeting a large portion of its debt payments to us.

Our foreign lending was utterly haphazard. Little or no attention was given to the economic implications of the export of capital. The lending process was unrelated either to our other international economic policies or to the policies pursued by other nations. Only by continued lending could we, for a time at least, disguise the contradictory and inherently unsound nature of our commercial and debt-collection policies, and postpone, both for ourselves and for the rest of the world, the inevitable day of reckoning.

Foreign lending by other countries was on no healthier basis than ours. Moreover, much of the movement of funds was in the form of short-term loans, subject to sudden demands for repayment, thus introducing another factor of instability into an already unstable situation.

Had international lending, on a scale on which it actually took place, occurred at a time when sound rather than unsound policies prevailed in the world, and on a healthy basis, it would have, undoubtedly, resulted in a vast and immensely beneficial expansion of production and trade and in a general increase of national and individual welfare. It would also have contributed greatly to economic stability everywhere. As it was, much of it was wasted as a mere unproductive channel for the transfer of debt payments; and the rest served as an artificial and necessarily temporary stimulus, under the influence of which world production and world trade did rise, but at an inadequate rate



and, in too many instances, in undesirable directions.

A situation was created in which the debtor nations of the world found themselves in the position of a person whose debts grow faster than his income; forced—in part by his own actions and in part by the actions of his creditors—either to devote a larger and larger share of his income to debt payments, or to borrow more and still more in order to maintain an artificial prosperity and a precarious solvency; finally going bankrupt when the stream of lending begins to dry up while at the same time demands for repayment grow more insistent; and dragging down to disaster not only himself but his imprudent creditors as well.

This was precisely what happened to the world at the end of the first post-war decade and was one of the decisive factors responsible for the oncoming of the great depression, and especially for its depth and duration. Thereafter, for nearly another decade, the world lived through a period of economic stagnation, highlighted by savage and disastrous economic warfare.

## V

During the thirties some nations, in an effort to preserve monetary stability and financial solvency, subjected their imports to rigid and far-reaching regulation and devised means of forcing their exports. This was accomplished through such devices as heightened tariffs, embargoes, quotas, exchange controls, multiple currencies, subsidies, and a whole arsenal of other weapons of economic warfare. Since—to repeat—one nation's imports are the exports of another or other nations, the latter naturally reacted by augmenting their own trade barriers. A vicious spiral of retaliation and counter-retaliation was set into motion. International trade was rapidly dwindling, and what remained was being strait-jacketed more and more into a system of narrow bilateral relationships.

One commercially important nation, Nazi Germany, adopted trade regimentation and



narrow bilateralism, not for economic reasons but as an adjunct of political action—as an important part of her machinery for carrying out a program of rearmament on a vast scale. This required a high degree of selection as regards imports to make sure that materials necessary for armaments were procured. It required the forcing of exports to pay for the imports. Since, however, a disproportionate share of both the productive equipment and the imported raw materials was diverted to armament production, the volume of available exports tended to fall short of the amounts required to pay for imports. The difference was made up through the operation of the bilateral balancing system—that is, through the use of blocked marks which represented enforced loans to Germany by the countries from which she made her purchases.

By all these devices, and because of the more or less complacent acquiescence on the part of other countries, Germany succeeded in obtaining the imports necessary for building up a powerful war machine but not for avoiding, at the same time, the necessity for sacrificing butter for guns. Even so, as time went on, Germany encountered great and increasing difficulties in the operation of her trade system. This was the result of a growing unwillingness on the part of other countries both to limit the utilization of the proceeds of their sales to Germany to the range of commodities which Germany was in a position to furnish and to supply Germany with substantial amounts of commodities on the basis of enforced credit—these conditions necessarily arising out of the operation of the bilateral balancing system. It is not devoid of significance that in 1938, despite Hitler's desperate announcement that Germany "must export or die", her volume of exports was only 59 percent of the 1929 level, whereas the figure for Great Britain was 74 percent, and for the United States, 79 percent.

It is arguable that the war came just in time to save Germany from a really embarrassing economic situation. It is even arguable that

Germany began the war when she did in part, at least, for that very reason.

The German leaders themselves, in the end, had no illusions as to the real effectiveness of their trade system. Some of them finally came to regard it as, at best, a temporary expedient and hoped fervently for an eventual return to more or less normal international economic relations. Others—perhaps most—looked upon it from the start as merely an instrument of preparation for war, to be replaced after an armed victory by a system of exploitation of conquered territories on the basis of permanent military controls. In the meantime Germany's trade policies and measures were a powerful factor in the continuing disruption of international trade relations.

Other countries employing the same methods, even though they did not use them as did Germany primarily for preparation for war, not only invariably found their foreign commerce—both exports and imports—reduced and their living standards depressed, but did not even succeed in preserving either their monetary stability or their financial solvency. This was inevitable because drastic trade controls and artificial diversion of trade, through wholesale discrimination and through the forcing of trade balancing into bilateral channels, inescapably reduced both the volume and the economic usefulness of international commerce.

Whatever was the official justification for the use of these methods, the real underlying thought in many cases was that it was possible for individual nations, confronted with grave financial difficulties resulting largely from a break-down of international economic cooperation, to achieve economic salvation or to attain other national objectives through independent national action necessarily involving varying degrees of acute international economic warfare. In some instances, elaborate theories were advanced to prove that such independence of national action was inherently preferable. In practice, apart from Germany's success in the armament field, the only result was a continued

stagnation of world trade, which brought immense injury to all nations and, most of all, to those very nations which sought the greatest measure of independent national action and employed, therefore, the strongest weapons of economic warfare.

The resulting and ever-growing economic dislocation was intensified by—and, in turn, served to intensify—a rapid deterioration of international political relationships. All this finally culminated in the supreme catastrophe of a new world war.

In this tragic situation, the most significant factor operating toward arresting and reversing the fatal trend was this country's trade-agreements program, which was vigorously pursued under the inspiring leadership of Cordell Hull. By means of reciprocal trade agreements we sought to bring about an elimination or at least a progressive reduction of quotas, prohibitive tariffs, and other exaggerated import restrictions, which were directly and drastically curtailing the volume of trade. By basing our policy on the widest possible application of the unconditional most-favored-nation principle, we sought the elimination of the various devices for discriminatory commercial treatment and trade diversion which were forcing much of the diminished world commerce into artificial channels, and thereby were reducing still further both the volume and the usefulness of international trade. At the same time, this country repeatedly expressed its willingness to enter into appropriate arrangements for the stabilization of international currency relationships. All these were clearly indispensable steps in the direction of ridding the world of conditions of economic warfare, which had such disastrous effects both on the economic well-being and the political stability of the world.

The substantial progress made in this direction during the years immediately preceding the war was interrupted by the outbreak of hostilities. Under war conditions all the aspects of pre-war economic warfare have become greatly intensified, and, in addition, new weap-

ons of this type have been and are being constantly forged. This is inevitable, since, under modern conditions, economic warfare is an integral part of military effort. But when the war is over, mankind will inevitably find itself in an even sorrier economic plight than was the case after the last war, unless vigorous and determined action is taken toward as rapid as possible elimination of conditions of economic warfare and toward the creation of conditions of economic peace.

## VI

After this conflict, as after the last, the transition from war to peace will involve two principal stages: demobilization and reconstruction. The two stages will, of course, overlap.

Some of the problems of the immediate post-war or demobilization period are obvious. Many areas of the world will be in desperate need of food, clothing, medical supplies, and other necessities of which their larders will have been swept bare by the war and the looting tactics of the invaders. These urgent needs will have to be met quickly, both for humanitarian reasons and for the purpose of minimizing the chances of social upheavals.

The task of putting into effect the necessary arrangements will, in any event, be greatly complicated by the difficulties which will, unquestionably, be involved in setting up effective administrations in many of what are now belligerent or invaded countries. The speed with which relief is provided may be a decisive factor in easing or even obviating some of these difficulties.

The measures of relief will, of course, be only a part of the immediate post-war problem. No nation will want to remain long an object of charity, nor will any nation, even the United States, be able to provide such charity indefinitely. The real demobilization process—return to peaceful employment of millions of men comprising the fighting forces or working in war production, and re-orientation of agricultural and especially industrial plants and



equipment from military to peaceful pursuits—will have to begin very soon after the war.

This will require, among other things, for a number of countries the re-constitution, largely through importation, of stocks of many raw materials and basic foodstuffs, which will unquestionably be at a low point everywhere, and the acquisition of necessary machinery and other equipment. All this will call for a larger volume of means of foreign payment than practically any country of Europe and Asia will possess for some time.

The meeting of these needs will also involve many complex and difficult problems for our country and for those other areas which will be in a position to supply the necessary resources. The task of aiding in the reconstruction of other countries will be superimposed upon the task of these countries' own demobilization and of re-conversion of their own production from military to peaceful ends.

These phases of the demobilization process will naturally extend over periods which will vary from country to country. But they will, in all cases, be also the initial phases of the longer-range reconstruction process. The policies pursued in connection with both processes should, therefore, be carefully and closely integrated from the point of view of basic objectives and of the best means of attaining those objectives. If we want to make sure, this time, that post-war reconstruction policies will really be directed toward winning the peace, we must make sure that the cessation of armed hostilities will not be followed by a continuation of economic warfare.

Lack of determination to abandon the policies and practices of economic warfare will be the greatest danger that can confront us after the war. Plenty of reasons for continuing such policies and practices will be advanced, as they were after the last war. Yet it will not matter whether economic warfare will be employed in the post-war era for selfish and predatory reasons; or as an instrument of other policies; or on the basis of a defeatist acceptance of what



appears to be the line of least resistance; or as an inevitable consequence of action based on the theory that the solution of the problems of economic stability, full employment and rising living standards can and should be sought predominantly, or even solely, in terms of national economies and of domestic measures and controls, and that the resultant sacrifice of foreign trade should be accepted as inconsequential. In all cases, it will lead only to economic stagnation or worse.

Hence, while doing everything that is necessary to win the war, no effort should be spared to develop, in our country and in all countries which are now embattled against the forces of conquest, a firm determination to follow resolutely a course which would bring us to economic peace, and to chart that course well ahead of the time when we shall have to face the problems of post-war reconstruction.

There is no mystery as to the nature of the economic problems which will confront us after the war. In the international field, apart from making adequate preparation for handling the immediate problems of relief and demobilization, some of the more important ones will be as follows:

1. To rebuild the machinery of sound international commercial relations by dealing with such problems as import restrictions, non-discriminatory treatment, access to raw materials, commodity agreements, export subsidies, indirect protectionism, shipping, etc.

2. To create appropriate arrangements for the stabilization of foreign-exchange rates and for encouraging freedom of foreign-exchange transactions, including such problems as the role of gold and the use of other monetary techniques.

3. To create effective machinery of international credit and investment, designed to promote the functioning of international trade, the establishment and maintenance of monetary stability, the development of the world's resources, and the assurance of a timely and adequate flow of funds from financially stronger

to financially weaker countries, for the purpose of assisting them in reducing the amplitude of economic fluctuations, and thereby contributing to general economic stability; and to bring about, where necessary, adjustment of existing international obligations.

4. To set up other necessary mechanisms for implementing the various phases of economic collaboration among nations, as regards both international policies and measures and appropriate international coordination of domestic policies and measures, without agreement on both of which no satisfactory solution is possible for the crucial problems of economic stability, full employment, and rising living standards.

Action in all these fields must be initiated as speedily as possible after the termination of hostilities. It obviously cannot be completed overnight. It must be of a continuing and progressive character and must necessarily proceed through a series of step-by-step adjustments. What is clearly needed, therefore, is agreement among the nations on broad objectives, and utmost care in choosing transitional policies in such a way that they will facilitate rather than retard—or even render impossible—the attainment of these objectives.

## VII

Important steps have already been taken to this end.

For several months an Allied Committee has been at work in London on the problem of post-war relief requirements. Many countries, including ours, are represented on that Committee.

In November the International Labor Conference in New York decided to create an international committee for the study of post-war economic problems. Like the International Labor Organization itself, the committee has tripartite representation — government, labor, and employers.

The Rio de Janeiro Meeting of the Ministers of Foreign Affairs of the American Republics, in January, decided to convoke an Inter-Ameri-

can Technical Economic Conference to consider programs for post-war reconstruction. Preparation for this conference has been entrusted to the Inter-American Economic and Financial Advisory Committee, which has been in continuous session in Washington for over two years.

Last week a far-reaching agreement was signed in Washington between Great Britain and ourselves, setting forth the principles which are to govern the final settlement of obligations resulting from our Lend-Lease aid to Britain. That agreement contains, in its article VII, the following provision which is of enormous significance for the post-war period:

“In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

“At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their

own agreed action and of seeking the agreed action of other like-minded Governments."

The decision of the two Governments to engage in consultations along the lines of the first paragraph of this provision, and to seek agreement on these matters with the governments of all other like-minded nations, marks tremendous progress toward effective implementation of the economic objectives and the high social aims of the Atlantic Declaration.

All appropriate departments and agencies of our Government are hard at work in their respective fields on problems of the future as well as of the present. Throughout the war we have continued, wherever possible, to negotiate mutually beneficial reciprocal trade agreements and thus to keep alive, as a powerful instrument of post-war action, a policy which has proved in the past so important a factor in the promotion of economic peace. The International Wheat Meeting, which has been at work in Washington for several months, is attempting to find a solution for one of the most troublesome commodity problems. Many private groups in the country are giving hard thought to the problems of the future and are cooperating splendidly with the Government.

All these are significant steps toward laying a foundation of economic peace for the post-war period. As time goes on, others undoubtedly will be undertaken. There is more than a good chance that we shall emerge from this war with the techniques for economic peace reasonably well worked out and ready to be applied. Whether or not these techniques will actually be translated into a functioning machinery of economic peace will depend overwhelmingly upon whether or not the people of our country and of other countries will have a clear understanding of the issues at stake and the necessary resolution to act on that understanding. So far as our country is concerned, an organization like yours has an unrivaled opportunity to help our people to that understanding and to help strengthen that resolution.

**The Reciprocal-  
Trade-Agreements  
Program  
In War and Peace**



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## The Reciprocal-Trade-Agreements Program in War and Peace

The reciprocal-trade-agreements program is based upon the Trade Agreements Act of June 12, 1934, which has twice been extended by Congress for additional 3-year periods, from June 12, 1937 to June 12, 1940 and again from June 12, 1940 to June 12, 1943. Further extension of this program will be considered by the Seventy-eighth Congress.

### WHY IT WAS ADOPTED

#### Purpose

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To increase foreign markets for products of the United States is the primary purpose of the trade-agreements program. This purpose is sought through reciprocal adjustment of excessive trade barriers. The general objectives of the program are to substitute economic cooperation for economic warfare in our relations with other countries; to give economic substance to our good-neighbor policy; and to create the kind of international economic relations upon which a structure of durable peace can be erected.

#### Necessity

Normally the United States can and does produce more of a great number of farm and industrial products than can profitably be sold in the American market.

When large quantities of such goods cannot be exported, our agricultural products pile up in unmarketable surpluses and our industrial production slows down. The result is felt throughout the country in depressed prices, unemployment, reduced wages, and poorer home markets for American producers.

Trade between nations declined sharply after 1929, largely because most nations, including the United States, set up excessive barriers against imports. By thus making it difficult for its people to buy things they needed and desired from other countries, each country made it difficult—in many cases impossible—for its own producers to sell their exportable surpluses in other countries.

The value of the foreign trade of the United States fell even more rapidly than did that of the world as a whole; it dropped from \$9,640,000,000 in 1929 to \$2,934,000,000 in 1932.

As world trade diminished, employment and incomes fell and the world-wide economic depression was deepened and prolonged. Between 1929 and 1932 our foreign trade dropped nearly 70 percent; national income, 43 percent; cash farm income, 58 percent; wages and salaries in manufacturing industries, 53 percent.

## **Benefits of Foreign Trade**

Expansion of our trade with foreign countries benefits the whole country:

1. It benefits directly the great branches of American agriculture and the many industries, large and small, that have products to sell in foreign markets.

2. It benefits directly American producers who use imported raw materials or semi-manufactured products in making their finished products.

3. It benefits millions of workers dependent upon these branches of agriculture and industry for their livelihood.

4. It improves domestic markets for American producers not directly interested in export or import trade; American farmers and manufacturers who can sell more of their goods in foreign markets—and their employees as well—are better customers for

the goods and services of Americans not in the business of exporting or importing.

5. It raises living standards by providing more employment, more purchasing power, and more goods for American consumers at reasonable prices; it increases, to our mutual advantage, the exchange of products we grow or manufacture to better advantage than other countries, for products that other countries can grow or manufacture to better advantage than we can.

## Foreign Trade Is Two-Way

Foreign trade *necessarily* is two-way trade. We cannot export unless we import; we cannot import unless we export. Our exports provide purchasing power for the things we import; our imports provide purchasing power to foreign countries for the things they buy from us. People in foreign countries can buy our products only to the extent that they can acquire United States dollars to pay for them, and the only way they can acquire dollars is through the sale in this country of their products (including gold and silver) and services or by borrowing. Loans, even if available to them, merely postpone the ultimate necessity for payment in the form of commodities or services. If such payment is prevented, defaulted debts are inevitable.

## HOW THE PROGRAM WORKS

Direct negotiation with other countries is the method prescribed by the Trade Agreements Act for reducing excessive barriers standing in the way of expansion of our foreign trade. This method was chosen as more practicable and more effective than general downward revision of the United States tariff alone. Even if feasible, such a revision would not insure the reciprocal reduction by other countries of their tariffs and other barriers, including discriminations, against our export trade.

## Method

Specifically, the act empowers the President, in order to obtain from other countries concessions on American exports, to modify excessive United States tariff rates, to bind existing tariff rates against increase, and to guarantee continued duty-free entry of products now on the free list.

The act does *not* empower the President to modify tariff rates except under a trade agreement; it does *not* empower him to reduce the duty on any foreign product under a trade agreement by more than 50 percent or to transfer any item from the dutiable list to the free list.

It *does* require that trade agreements be concluded only after the President has sought the advice of the Departments of State, Agriculture, and Commerce, the Tariff Commission, and other appropriate agencies of the Government, and only after public notice and full opportunity for presentation of information and views by any interested person.

All Government agencies concerned with foreign commerce cooperate, through interdepartmental committees, in studying all pertinent facts and views. Before any trade agreement is concluded, public notice is given of all products on which concessions by the United States will be considered and public hearings are held by representatives of the Government agencies concerned. Resulting recommendations in regard to trade agreements are submitted to the President through the Secretary of State.

## Concessions Obtained

The United States, in negotiating a trade agreement, asks a foreign country to lower its excessive tariff rates on our exports, or to liberalize quota or exchange restrictions on them.

Such concessions and assurances against higher trade barriers have been obtained from countries which are important customers for



thousands of American products, both agricultural and non-agricultural, comprising one third of all United States exports.

## **Concessions Granted**

Under trade agreements the United States has agreed to tariff reductions or to the continuance of existing tariffs or free entry in the case of imported products needed or desired by American producers and consumers. Concessions on imported products more or less similar to those produced in the United States are granted only when they are in the national interest, when reciprocal concessions are obtained therefor, and then only after thorough study of all the factors involved. In appropriate cases imports of such products permitted to enter at the reduced tariff rates are limited in amount or restricted to seasons when similar American products are not marketed in quantities sufficient to satisfy the needs of American consumers.

## **“Most-Favored-Nation” Clause**

The traditional trade policy of the United States is not to discriminate between foreign nations but to extend equality of tariff treatment to all who do not discriminate against the trade of this country. This policy is embodied in the Trade Agreements Act. Under it a lower rate of duty on a given product in a trade agreement with a foreign nation (other than Cuba) applies also to the same product from any third nation, unless that third nation is found to discriminate against the products of the United States. This policy enables the United States to require other countries, as well as the other party to the trade agreement, to give our exports non-discriminatory treatment.

This policy of fair treatment on a reciprocal basis pays large dividends in dollars and cents to American producers who are thus protected

against foreign tariff and other discrimination. It promotes peaceful commercial relations. Discriminatory trade policies create resentment and invite retaliation.

## **BENEFICIAL RESULTS OF THE PROGRAM**

The United States has concluded agreements with 26 foreign countries. These countries, in the order in which the agreements were signed, are: Cuba, Brazil, Belgium and Luxembourg, Haiti, Sweden, Colombia, Canada, Honduras, the Netherlands, Switzerland, Nicaragua, Guatemala, France, Finland, Costa Rica, El Salvador, Czechoslovakia,<sup>2</sup> Ecuador, the United Kingdom of Great Britain and Northern Ireland, Turkey, Venezuela, Argentina, Peru, Uruguay, and Mexico.

About 65 percent of the total foreign trade of the United States is carried on with the countries with which reciprocal trade agreements have been concluded. The United Kingdom and Canada are, respectively, the largest and the second largest customers for American exports.

## **Agreements With American Republics**

Trade agreements have been concluded with all the other American republics except Bolivia, Chile, the Dominican Republic, Panama, and Paraguay. Negotiations with Bolivia are under way. Over 90 percent of the trade of the United States with the other American republics is with the trade-agreement countries.

## **Trade Increases**

The trade-agreements program contributed substantially to the increase in United States foreign trade between the inauguration of the program and the outbreak of war in 1941.

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<sup>1</sup> The reciprocal duty concessions and certain provisions of this agreement ceased to be effective March 10, 1938.

<sup>2</sup> The operation of this agreement was suspended April 22, 1939.

Other factors have also, of course, affected the volume and the nature of our trade.

During the 2-year period 1934-35 United States total foreign trade averaged 4.1 billion dollars a year. In the 2-year period 1938-39 the average was 5.3 billion dollars.

The contribution of the trade-agreements program to the increase in our foreign trade is indicated by a comparison of United States trade with agreement and with non-agreement countries.

In the 2-year period 1938-39, when 16 trade agreements were in effect, United States exports to the countries covered by these agreements averaged 62.8 percent greater than in 1934-35, when only 1 agreement was in effect for a year or more. In 1938-39 our exports to all other countries were only 31.2 percent greater than in 1934-35.

Our imports from the 16 agreement countries averaged 21.6 percent greater in 1938-39 than in 1934-35, but our imports from other countries averaged only 11.1 percent greater.

These comparisons reinforce the common-sense conclusion that the reduction of excessive tariffs and other barriers to the exchange of our goods for those of other nations tends to support and enlarge our foreign trade.

## **Improved Trade Relations**

Trade agreements improve trade relations generally between the United States and the foreign country concerned. The agreements themselves provide a basis for consultation in regard to matters dealt with in the agreements. Beyond this the cordial atmosphere fostered by the agreements paves the way for friendly discussion of other trade and economic matters not directly involved in the agreements.

## **Improved General Relations**

Economic cooperation through mutually beneficial trade agreements tends to promote good relations with other countries. The trade-

agreements program has helped us to win back to our great advantage, some of the friendship we lost by our short-sighted tariff and war-del policies after the last war. Today the trade agreements with the other American republics are one of the strongest pillars in the structure of hemispheric solidarity and of our global good-neighbor policy.

## THE PROGRAM IN WAR AND PEACE

### During the War

Our existing trade agreements with the United Kingdom and Canada entered into force on January 1, 1939, the year in which war began in Europe. The agreement with Turkey took effect in May of that year. During the war period five new agreements have become effective with: Venezuela in December 1939; Argentina in November 1941; Peru in July 1942; Uruguay on January 1, 1943; and Mexico on January 30, 1943. During this period four supplementary agreements (two each with Canada and Cuba) were concluded.

Wartime trade controls, scarcity of shipping and military considerations have come to dominate the nature and extent of our foreign trade. Nevertheless, a considerable amount of trade continues to be influenced primarily by economic considerations. The trade-agreements program exerts a beneficial influence on our trade relations with friendly countries and on our own war effort.

The agreements provide valuable insurance now, against a repetition of the tidal wave of trade barriers and discriminations that swept over the world after the last war. They provide, now, a solid foundation for resumption of mutually beneficial trade after the war, when so many of our agricultural and industrial producers will need foreign markets if they are to avoid curtailment of production and ruinous low prices, and when American industry and

consumers will need imported raw materials and semi-manufactured and finished products. Trade agreements, old as well as new, help to bring about close economic cooperation between this country and the other United Nations in the joint effort to achieve complete victory. These agreements stand today for economic cooperation in war and in peace—for a world in which men everywhere can produce in accordance with their ability and exchange their goods on a fair and reasonable basis. For this reason, an active trade-agreements program during the war strengthens the determination of the United Nations to win a victory that will be worth the cost; it inspires confidence that the United States will do its share in creating conditions favorable to prosperity and security after victory.

## After the War

Secure peace after victory must be built upon the solid foundation of economic cooperation. Economic insecurity and social unrest, caused in a considerable part by excessive trade barriers and discriminatory trade policies, helped to spawn a Hitler and to plunge the world into its greatest of all wars before it had recovered from the last one. After this war, economic cooperation, not economic warfare, must be the rule.

The governments of the United Nations, in subscribing to the Atlantic Charter, agreed "to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity"; and affirmed their "desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement, and social security". In article VII of the mutual-aid (lend-lease) agreement of February 23, 1942 the Govern-



ments of the United States and of the United Kingdom agreed that "In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives" of the Atlantic Charter.

Similar article-VII provisions are contained in mutual-aid agreements with China, the Soviet Union, Belgium, Poland, the Netherlands, Greece, Czechoslovakia, Norway, and Yugoslavia. Australia and New Zealand have accepted these principles, and Canada, although not a recipient of lend-lease aid, has subscribed to them.

The trade-agreements program, if extended by the Congress prior to June 12, 1943, will be one of the most effective means of applying, in cooperation with other countries, these agreed-upon principles for the attainment of the economic basis of an enduring peace.



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# The Importance Of International Commerce To Prosperity

Radio Broadcast by  
**HARRY C. HAWKINS**

*Director of the Office of Economic Affairs  
Department of State*

Arranged by the  
**WORLD WIDE BROADCASTING FOUNDATION**

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# The Importance Of International Commerce To Prosperity

Radio Broadcast by  
Harry C. Hawkins <sup>1</sup>

**ANNOUNCER:** Plenty of jobs, security, permanent prosperity—these are the things we want most for ourselves, for our fighting men when they return, for our children, after we have won the war. Yet the United States could not long remain an island of prosperity in a world sea of poverty.

To show us why this is so, this week's "Beyond Victory" program, brought to you by the World Wide Broadcasting Foundation of Boston and the Carnegie Endowment for International Peace, calls upon one of the leading officials of the United States Department of State, Mr. Harry C. Hawkins. For many years Mr. Hawkins has been working closely with Secretary Hull in carrying out the reciprocal-trade agreements. He is now the Director of the Office of Economic Affairs of the State Department.

We take you to Washington, where Mr. Hawkins will be interviewed by Mr. William Harris.

**HARRIS:** Mr. Hawkins—to start right off with a hard question—Do you think that after the war our first consideration should be the economic welfare of other countries, bearing in mind how important that welfare is to permanent peace? Or do you think we ought to concentrate on the enor-

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<sup>1</sup> Delivered over station WINX, Washington, Apr. 2, 1944.

mous problems of employment and production that we're going to have right here at home?

HAWKINS: Well, Mr. Harris, if we had to make such a choice that would be a hard question. However, in my opinion we can and should do everything in our power to expand employment and production here in the United States after the war. And at the same time we can and should help other nations to expand *their* employment and production. If we do that, I believe we will have the best possible basis for an enduring peace.

HARRIS: That sounds very encouraging, Mr. Hawkins—in spite of that ominous “if”. But how can we help other nations expand their employment and production? By removing all our tariff barriers?

HAWKINS: Oh, no. That would be too drastic and too one-sided. What we do need is a tariff and foreign-trade policy that will call for international cooperation to bring about a substantial reduction of trade barriers, theirs as well as ours, in the real, long-run interests of all countries.

HARRIS: And if we don't adopt such a policy?

HAWKINS: If we and all other countries don't consider each other's long-run trade interests, we'll all soon be engaged in trade warfare as we have in the past, and all our hard lessons will have taught us nothing.

HARRIS: Well, by trade warfare, Mr. Hawkins, do you mean when one nation discriminates against another by refusing to admit its goods?

HAWKINS: Not necessarily, Mr. Harris. Trade warfare doesn't always start with a deliberately hostile act; it doesn't always start with discrimination against some particular nation; and it doesn't always mean flatly refusing to accept goods. What happens more often is that a country imposes high tariffs on imports, usually in an attempt to benefit some of its domestic producers and without regard to how the tariff is going to affect foreign producers or even how it's going to affect its own export interests in the long run.



The result is that producers in other countries are deprived of outlets for their products, and so those countries set up trade barriers of their own against imports. This hits still other countries and they in turn take similar action. Some countries begin to make unfair and discriminatory deals, and so unemployment and economic sickness begin to spread throughout the world.

HARRIS: And that's the way wars are caused.

HAWKINS: That's one thing that can contribute to them. We've seen that when a country gets starved out economically, its people are all too ready to follow the first dictator who may rise up and promise them all jobs. Trade conflict breeds non-cooperation, suspicion, bitterness. Nations which are economic enemies are not likely to remain political friends for long.

HARRIS: Well, that's a grim picture you've painted, but I know enough about international trade to realize that that's just what has happened sometimes in the past. Let's all earnestly hope it doesn't happen again.

HAWKINS: It is with that hope that the nations of the world—outside the Axis—have been turning to trade cooperation, to giving some consideration to the other fellow's interests, and thereby looking out for each one's own ultimate benefit.

HARRIS: Well, exactly what does that mean in terms of tariffs?

HAWKINS: A good example is the trade-agreements law which we have had in effect since 1934. This law authorizes the President to negotiate and conclude with other countries reciprocal agreements which provide for reduction, within definite limits, of our tariffs which unduly hamper their exports to us, in return for reductions by them in their trade barriers against our exports.

HARRIS: That sounds pretty complicated to me.

HAWKINS: Well, some aspects of it are technical, of course, but let me give you an example, although it is far too simple to be an accurate picture of all that a trade agreement is and how it is made. At

one time the United States had a high tariff on imports of Brazil nuts. Perhaps our imports of these nuts were not very important in our whole national economy, but they were very important to the producers in Brazil, and our tariff limited their sales and profits in this country. At the same time, United States automobile and parts manufacturers wanted to sell more of their products in Brazil, but the Brazilian tariff on such articles cut down the profits or limited the volume of such sales. In our reciprocal-trade agreement with Brazil we reduced our tariff on Brazil nuts, while they reduced their tariffs on automobiles and parts.

HARRIS: I can see how that kind of trade cooperation would make for better feeling between countries and therefore would contribute to world peace. But will trade cooperation help solve our own post-war problems in this country? After all, we can't help being interested in our own prosperity.

HAWKINS: That is just what I am talking about. I believe that we must look at post-war trade problems realistically and not sentimentally. And from a purely self-interested point of view, trade cooperation will, in my opinion, help us a great deal. As you know, we've got to plan on enormously increased production in this country after the war, and the American domestic market can't absorb all that production indefinitely. There won't be any question about our needing greatly increased foreign markets.

HARRIS: And I suppose American producers are well aware of that?

HAWKINS: Oh, yes—very well aware. Taken agriculture, for example. The Farm Bureau Federation came out last spring with the statement that if farmers are to maintain their production after the war, their export outlets absolutely must be restored.

HARRIS: That's very interesting. I shouldn't have supposed that farmers would be so much interested in exports.

HAWKINS: Certainly they are. Many people don't realize, Mr. Harris, that about half of all this country's exports in normal times have been agricultural products. In fact, more than half of one crop—cotton—has been sold in foreign markets in many past years. Large percentages of our wheat, fruit, tobacco, and corn (when it has been transformed into pork and lard) are exported when there are foreign markets for them.

HARRIS: Well, I confess I hadn't realized that agriculture has such a big stake in exports. I do know that American industry is talking about the necessity for large-scale foreign trade if business is to expand after the war. By the way, how about labor, Mr. Hawkins? How does it feel about trade cooperation?

HAWKINS: Many labor leaders feel the same way industry and agriculture do. Mr. William Green, president of the A. F. of L., has urged the renewal of the trade-agreements law we were discussing just now, because he says labor is determined to assure for itself a security based upon full employment in an expanding industry and trade which, in turn, require foreign markets.

HARRIS: Then I gather that agriculture, industry, and labor are all agreed there is a potential world market for our goods. Can you give us any idea as to how much of a market that might be, Mr. Hawkins?

HAWKINS: Well, there are more than two billion people in the world outside the United States—and they're all potential customers of ours if we will think of them that way. Of course, only a relatively few have living standards and purchasing power comparable to our own. The vast majority are very poor, according to our standards, and individually they can buy very little, but in the aggregate their purchasing power is enormous.

HARRIS: And I suppose that as their living standards improve, the world market for American goods will expand, too.

HAWKINS: Certainly, although its expansion will depend on a variety of things, such as the

investment of capital, the development of natural resources, and so forth. But basic to everything else is the ability to trade in their products.

HARRIS: Mr. Hawkins, why do people often seem more enthusiastic about the exporting angle of foreign trade than about the importing angle?

HAWKINS: Well, Mr. Harris, in any business deal most people are more eager to sell than to buy. However, the reason a person wants to sell something is to get the wherewithal to buy other things he wants. Countries are like individuals in that respect. The United States, to be specific, can't go on selling its products abroad indefinitely unless it accepts the products of other countries in return. If other countries can't get United States dollars by selling their goods in the United States they can't buy our things.

HARRIS: Some people are afraid of flooding our own markets with cheap imports from foreign countries with living standards lower than ours and in that way throwing Americans out of jobs or cutting their wages down to the low foreign levels. What about that fear?

HAWKINS: We must remember, first, that competitive ability depends on efficiency of production. Low living standards and low wages do not necessarily mean efficient production—in fact, misery and efficiency seldom go together. Actually, although many of our industries pay the highest wages in the world, their efficiency is also the highest in the world, and therefore the unit cost of their product, including wages, is so low that they can compete successfully in the world market where wages are far lower.

HARRIS: However, I suppose there are some industries which really do benefit from high protective tariffs.

HAWKINS: They are relatively few. A prominent labor economist has made some interesting studies along this line. He found that of 45 million people employed in this country in 1940, only 2 or 3 million were actually producing goods.

which, without tariff protection, might meet serious foreign competition in the domestic market. The vast majority—42 or 43 million people—are actually harmed by excessive tariffs and other trade restrictions and would gain from expansion of both our import and our export trade.

HARRIS: In other words, a minority of 5 or 6 percent of our population has been benefiting from high tariffs at the expense of 42 million of our people and their families who would be better off if their industries had more foreign markets! It seems to me that you've made out a very fine case for trade cooperation, Mr. Hawkins, and you've also made the same point for international economics which our guest on this program, Mr. Paul Hoffman of the Committee for Economic Development, made last week for domestic economics. Mr. Hoffman emphasized that many of our economic ills result from a basic sense of fear, and it seems that may be true of nations, also.

But here's one thing I'd like to ask you, Mr. Hawkins. I know industrialists are counting on a large backed-up demand in this country for consumer goods after the war. In some cases it may be months or years before that demand is satisfied and producers can turn their attention to foreign markets. That being the case, is there any very pressing need for improving our trade relations now?

HAWKINS: Yes, we would benefit by improving them as soon as possible, partly because of the foreign-relief programs ahead in the immediate post-war period. The American interest concerned here is that of the American taxpayer, who is already heavily burdened and will be anxious to keep down the costs of these programs. He will therefore have a direct interest in getting the war-poverished peoples of the world off the dole and to a productive self-sustaining basis as soon as possible.

All that I have said comes to this, Mr. Harris. From whatever angle we view the post-war situa-



tion, trade policies of nations, particularly industrial nations, are of key importance. Our farmers, our manufacturers, our workers, all of us as taxpayers and consumers, have a big stake in an expanding world market. And, as I said at the beginning, trade policies will be important in determining whether this time we win and maintain the peace.

HARRIS: Thank you, Mr. Hawkins. Our guest on this "Beyond Victory" program has been Mr. Harry C. Hawkins, Director of the Office of Economic Affairs of the Department of State.



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# The Export-Import Bank of Washington

The First Ten Years

By

ELEANOR LANSING DULLES

*Division of Financial and Monetary Affairs*



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# The Export-Import Bank Of Washington

The First Ten Years

By

Eleanor Lansing Dulles<sup>1</sup>

## NEW INVESTMENT INSTITUTIONS AND NEEDS

For several decades there has been a wide-spread desire for more order, discipline, and cooperation in the field of international investment. Because many nations are still largely undeveloped and because others are dependent for capital goods on wealthier or more highly industrialized lenders, there are real possibilities for profitable loans, and yet in the past some of the more promising investments have failed. The difficulty in securing an adequate flow of capital has been to some extent the lack of coordination of financial enterprise with diplomatic and political measures, the highly speculative point of view in some centers, and currency instability and exchange restrictions. In some cases fluctuations in exchange rates have been highly disturbing; in others the credit risk has proved to be too great; sometimes war and revolution have prevented repayment. A notable attempt to fit investment programs to a policy of constructive commercial and financial statesmanship and to aid commerce is found in the modest yet highly successful operations of the Export-Import Bank over a 10-year period.

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<sup>1</sup> Mrs. Dulles is Principal Economic Analyst, Division of Financial and Monetary Affairs, Office of Economic Affairs, Department of State.

The growing recognition of need for expert guidance in foreign lending and the development of international standards designed to safeguard both creditor and debtor was manifest during the inter-war period in other plans and proposals. The Young Plan conferees of 1929 thought that real progress could be made by imaginative financial cooperation through a world bank. Unfortunately the Bank for International Settlements, established in 1930, fell far short of these hopes. Later, proposals for an inter-American Bank have given another indication of concern with these matters in the Western Hemisphere. More recently the Bretton Woods proposal for an International Bank for Reconstruction and Development has shown a growing determination on the part of many nations to move toward balanced, supervised lending between countries.<sup>2</sup>

The war has brought new factors into the credit situation which are bound to influence future international financial relations in ways difficult to predict. The lend-lease programs, developed in an endeavor to subordinate conventional financial considerations to the urgent requirements for goods and to various emergency demands, has led to new types of transactions. It has been made clear that where the need is sufficiently urgent and where governments control the expenditures, financial arrangements can be made to fit the goods transactions. Even wartime international transfers of a special nature are apt to influence future lending. To the growing body of experience and to the knowledge which will be important to future developments the Export-Import Bank can contribute its record of public participation in private international loans and of leadership of a public institution in foreign investment undertakings and also its history of advisory activities and selective support of developmental projects.

The Export-Import Bank has been limited in both scope and resources as compared with

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<sup>2</sup> Department of State *Bulletin* of July 30, 1944, p. 114. See also *Bulletin* of Nov. 5, 1944, p. 539.



plans for future undertakings such as those outlined at Bretton Woods. It has nevertheless served to demonstrate some of the practical possibilities in the field of foreign investment. The capital available has been small; the United States acting alone has supplied the funds. The Bank can, however, serve as a model for several types of international loans whenever a larger and more ambitious international institution is created. The value of its experience will be shown particularly in instances where the nature of the enterprise and of the commodities needed, as well as their probable use, is known in advance. In any case the success of financial statesmanship, while thus far on a limited scale, can be reviewed to discover the effects of one type of collaboration and to anticipate the opportunities and limits likely to develop when international action of wider scope is undertaken.

The Bank has already shown the possibility of giving discriminating government support to private foreign business undertakings as well as to public projects. Its fairness and financial judgment in its dealings with United States banks and with foreign borrowers, both public and private, have been unquestioned. Its losses so far have been negligible. Its record of repayment has been excellent. There has been no hint of exaggeration or bias in its operations in the long congressional debates over its expansion and modification.

The success of the Bank in its assigned tasks is granted; however, there remains the question of what light its experience throws on the fundamental problems of foreign investment. How far can a nation go in extending credits and selling goods if there is no clear indication of the way in which goods can flow in the opposite direction to repay these loans? How can lending by the more powerful nations be carried on without encouraging dangerous forms of intervention by one country in the affairs of another? Is there a likelihood that private initiative and investible funds will shrink as public participation increases? It is not

likely that the history of the Export-Import Bank can supply answers to all the main questions. Its operations have been bilateral rather than international in the broader sense. Its loans have not been large enough to place heavy interest burdens on the borrower or to dominate trade. Its influence has not been on a scale to raise the more difficult questions as to political pressures and economic imperialism. In these past years its ready acceptance by both lenders and borrowers suggests to some that if each transaction is carefully viewed on its merits, ways perhaps can be found to meet the more basic economic problems. To a limited extent the standards and techniques may serve as guides to future action. New plans need not lead to the discarding of old and tried measures. The larger institutions may move forward more assuredly with some familiar agencies as adjuncts and collaborators. Certainly in the Western Hemisphere the attitude toward international cooperation in investment is likely to be the more favorable because of the experience of the Export-Import Bank. The most pressing probably of all the problems confronting international investors is the nature of the role of the United States as lender and the development of United States trade policies consistent with its creditor position.

The Export-Import Bank during its 10 years has participated in loans totalling approximately half a billion dollars; however, commitments have been much larger. The loans of the future through many sources and for many countries may be 10 or 20 times greater. The economic strain and stress will be multiplied in proportion. The need for well-balanced plans is obvious.

#### THE ORIGIN AND EARLY HISTORY OF THE BANK

The plan for the original Export-Import Bank developed out of the problems of financing trade with the recently recognized Soviet Government. The Bank was incorporated in the District of Columbia under an executive order of the Presi-

dent dated February 2, 1934.<sup>3</sup> It was intended to assist in the financing of trade with the Union of Soviet Socialist Republics, but it later proved to be significant mainly in connection with commerce with the other American republics. In fact, because of the breakdown in debt negotiations no credits were ever granted to the Union of Soviet Socialist Republics through this channel. The original idea was to have different banks for various countries, but that idea was almost immediately abandoned as too complex to be practical. Thus, when in this same year financing with Cuba and other countries was needed, a second Export-Import Bank was instituted to deal with "all countries except Russia". This second institution created in March 1934 extended credits for Cuba and China. After a brief existence it was merged with the first Bank, and its charter was terminated by executive order of May 7, 1936.<sup>4</sup>

The combined resources of the two Banks was at first extremely small as compared with the value of United States foreign trade or even as compared with the larger private banks. The first Export-Import Bank had a capital stock of \$11,000,000. There was \$1,000,000 of common stock in 10,000 shares and \$10,000,000 of preferred stock in 10,000 shares.<sup>5</sup> The second Bank had preferred stock of \$2,500,000 and common stock of \$250,000. The common stock was retired by June 30, 1936

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<sup>3</sup> Executive Order No. 6581. The certificate of incorporation in the District of Columbia, No. 22430, is dated Feb. 8, 1934. The certificate of incorporation was amended on Feb. 9, 1935, Apr. 3, 1936, and Jan. 10, 1941. The Bank was created under the authority granted by the National Industrial Recovery Act of June 16, 1933 (Public Law 67, 73d Cong.) and the Reconstruction Finance Corporation Act of Jan. 22, 1932, as well as under the Bank Conservation Act of Mar. 9, 1933.

<sup>4</sup> Executive Order No. 7365.

<sup>5</sup> One million dollars worth was paid for out of appropriations under the National Industrial Recovery Act; the balance was subscribed by the Reconstruction Finance Corporation.

when the original Bank took over its activities. The preferred stock of the Bank amounted to \$174,000,000 in November 1944.

Since its organization the Bank has operated in close conjunction with the Reconstruction Finance Corporation. Through the later years its transactions were closely coordinated at times with those of the Commodity Credit Corporation and other financial, marketing, and production agencies, particularly those concerned with inter-American relations or with the handling of strategic supplies. Its board of trustees has consisted of representatives of the Departments of Commerce, State, Treasury, and Agriculture as well as of the Reconstruction Finance Corporation and later of the Foreign Economic Administration.<sup>6</sup>

On January 31, 1935<sup>7</sup> the first Export-Import Bank was given the legal form under which most of its operations have been carried on, and shortly thereafter the trustees of the two Banks voted to liquidate the second Bank. Its shares and resources were merged with the first Bank. Virtually no transactions were carried on in the first two years. With the failure of the original idea of financing trade with the Union of Soviet Socialist Republics, little interest was shown in the Bank.

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<sup>6</sup> At its formation there were 5 trustees representing the Departments of Agriculture, Commerce, and State and the Reconstruction Finance Corporation, there being 2 from the Reconstruction Finance Corporation (see Executive Order No. 6581 of Feb. 2, 1934), but the group was expanded to 9 on Feb. 14, 1934 (see Executive Order No. 6601-A). Additional representatives from the State and Treasury Departments, the Foreign Trade Commission, and Mr. Peek (assistant to the President) were added. The trustees were later increased to 11. These 11 persons represent the Departments of Agriculture, Commerce, State, and Treasury, the Reconstruction Finance Corporation, the Foreign Economic Administration, and officials of the Export-Import Bank (Annual Report of the Export-Import Bank, Washington, D. C., Jan. 6, 1944).

<sup>7</sup> Public Law 1, 74th Cong.; see Hearings of Banking and Currency Committee on H. R. 4240, (S. 1175), Jan. 23, 1935. The act of Jan. 31, 1935 was further amended four times and the life of the Bank was extended to Jan. 22, 1947.



The main changes in the legal characteristics of the Bank in the early years can be summarized briefly. The act of 1935, passed while the Bank was still largely inoperative, gave it special statutory basis and did little else except to remove the restrictions growing out of the limitations on discounting and on loans of more than 10 percent to one borrower which were in the District of Columbia laws. The life of the Bank was extended to June 16, 1937. The act of January 26, 1937 extended the life of the Bank until June 30, 1939 and made no other changes.

The second amendment, March 4, 1939, further extended the time-limit to 1941 but also added the limit of \$100,000,000 on loans and obligations. This latter provision was an indication of the modest nature of the undertaking. It was thought that such a limitation on the volume of business would be a wise precaution at a time when some feared that the Bank's credit might be used indirectly to help belligerents in carrying on the war. In the 1939 hearings discussion of the Reconstruction Finance Corporation, which was up for consideration, overshadowed the interest in the Export-Import Bank, which appeared in the bill as only one section.

The discussion of amendments to the act in January 1940 focused mainly on the possible use of the Export-Import Bank to finance war shipments and on the fears of unneutral transactions. As a result of evidence presented as to the Bank's neutrality and sound business standards, the act was passed extending the limit for total loans outstanding from \$100,000,000 to \$200,000,000 but inserting a limit of \$20,000,000 on loans "to any one foreign country and the agencies and nationals thereof".<sup>8</sup>

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<sup>8</sup> It also included a prohibition of loans to countries or their agencies whose governments were in default to this country on Apr. 13, 1934, the date of the passage of the Johnson Act, and loans which would violate the Neutrality Act of 1939. This phrasing was deemed necessary since the Johnson Act did not prohibit loans by governmental agencies.



## OPERATIONS IN THE FIRST FIVE YEARS

Transactions during the first five years were small, with disbursements totaling less than \$62,000,000 for the period. The largest annual disbursements were \$21,113,216 in 1936. Repayments for the period were slightly more than half the disbursements or approximately \$35,000,000. Commitments based on agreements to participate in projects which had not yet reached the definitive stage aggregated more than \$200,000,000. About half the authorizations had been cancelled for various reasons; a remainder were kept open. Then as later the Bank authorized credits for projects which were still in a preliminary stage, and the authorizations frequently allowed for a margin above the minimal needs.<sup>9</sup>

The transactions in the first few years were mainly designed to facilitate the marketing of United States products by granting more flexible and often more liberal conditions than those otherwise obtained. In some cases the interest charges were lower; in some, the time-limits were better adapted to the particular transaction than those through the commercial banks; in others, the sharing of the Bank in the credit burden was a significant factor.

The disposal of agricultural products and other surplus commodities was of particular interest at this time. Loans were granted for marketing United States tobacco in Spain and cotton in Italy, Czechoslovakia, Germany, Latvia, and Poland. The continuing depression had led to a wide-spread desire to provide facilities for orderly marketing and prevention of dumping. The facilities of the Export-Import Bank seemed designed to meet an urgent need.

Another type of loan was significant because of current monetary and exchange problems. During the pre-war years the large increase of monetary management and exchange control was accompanied in various instances by the blocking

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<sup>9</sup> See Annual Reports of the Export-Import Bank.

of accounts and frequently by the instability of exchange rates. These conditions seriously disturbed the flow of goods and threatened economic stability. The Cuban purchase of silver, though related to that country's currency, was a rather special case and was not so much a monetary measure as a credit to assist the Cuban Government—similar in some respects to credits extended on other occasions by the United States Mint. The loan to Brazil, though only a small portion of it was used, was made to ease Brazilian blocked accounts of American exporters. In this case the Export-Import Bank agreed to discount the notes of the Bank of Brazil at four percent up to a total of about \$27,750,000; however, actually slightly less than \$2,000,000 were discounted. The extension of credits to help in stabilizing the exchange rate of Peru eased the pressure so that Peru did not actually need to use the funds. Colombia and Costa Rica also received credits which helped them to handle their exchange problems.

It is natural, in view of the preoccupation with the depression in the first five years, that financing of the sale of agricultural products and heavy goods was the central interest, and that developmental projects were not given so much emphasis then as later. It was agreed that the Bank filled a real need, because the conditions under which short-term credits were extended were somewhat rigid with respect to maturity and types of guaranties. The European Central Bankers' meeting at the Bank for International Settlements in Basel and elsewhere had already devoted considerable attention to the possibility of developing "middle term" or intermediate credit to help in financing trade, particularly with countries when the typically commercial 90-day term caused difficulties. To some extent the Export-Import Bank by its flexible arrangements helped to fill the gap and demonstrated the feasibility of varied types of loans.

The use of special devices in the form of a barter arrangement involving cotton transactions

with Germany, which might lead to trade practices new to this country, was rejected early in the Bank's experience, during the presidency of George N. Peek. These methods were held to be against this Government's foreign-trade policy, and it is possible that the Bank's rejection of measures characteristic of Fascist economies which might have resulted in a multiple price system, hidden subsidies, and dumping of commodities influenced all its future transactions. Mr. Peek, who resigned at this time, was succeeded by Warren Lee Pierson, the present president of the Bank.

Prior to the amendment of 1940 the most noteworthy loans, in respect to size or the uses to which they were put, were made to Chile, China, Cuba, Brazil, Finland, and Haiti. The loan of \$25,000,000 in 1939 to the Chinese-owned Universal Trading Corporation of New York was made to assist United States exports of agricultural and industrial products and the importation of wood oil to the United States, but this transaction was generally recognized as a sign of official support of China in her war with Japan.<sup>10</sup> It was therefore not exclusively economic in significance. The need for the Brazilian credit already referred to rose mainly out of the special exchange restriction. It was granted primarily to ease a special monetary situation. The loan of June 1938 to Haiti was of a developmental character for the construction of engineering projects, particularly roads and bridges, and thus had various social and economic implications. In 1939 another developmental credit was granted, namely the loan to the Chilean Corporación de Fomento de la Producción.<sup>11</sup> Though small, it is of interest as the first of several loans to development corporations of the other American republics. It involved the authorization of \$5,000,000. At that time other lending facilities of considerable interest were developed

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<sup>10</sup> Department of State *Bulletin* of Mar. 28, 1942, p. 260, and Apr. 15, 1944, p. 350.

<sup>11</sup> Department of State *Bulletin* of Nov. 12, 1944, p. 571.

through a \$200,000 revolving credit, available up to a maximum of \$20,000 a year to any one firm.

These lending facilities illustrated that the loans were varied in character and that they covered a wide field. The 1939 amendment, however, by including the limit of \$100,000,000 on the total of loans, underscored the limited significance of the Bank. There was evidently little thought of the Bank's taking an aggressive part in a large number of developmental projects.

The early transactions may be considered as experimental, but they were also characterized from a business point of view as cautious and sound. In the hearings on the extension of the Bank's powers there has been no criticism with regard to the nature of its dealings with either United States or foreign firms. The loans attracted little attention; in fact if they had not served as a basis for later expansion to meet wartime needs, they might have had little lasting importance.

### THE SECOND FIVE YEARS

Early in 1940, as indicated above, efforts were made to expand the scope of the Bank and to increase its resources. Bills introduced in the House and Senate <sup>12</sup> were the occasion of spirited debate which brought before the Congress significant facts with regard to our defense policy, relations with the other American republics, and the plans for using our financial resources for the mutual interest of United States exporters and business of the other American republics. The act creating the Export-Import Bank was twice amended in 1940, first on March 2 and then on September 26.<sup>13</sup>

The shift in emphasis that came with the war is indicated in the congressional discussions. It is summarized in part in the amended act:

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<sup>12</sup> Hearing on S. 3069 (H.R. 8477), Feb. 16, 19, and 20, 1940, Committee on Banking and Currency. Hearing on S. 4204, July 30, 1940, Committee on Banking and Currency. Hearing on H.R. 10361, Aug. 6, 7, 8, 13, and 14, 1940, Committee on Banking and Currency.

<sup>13</sup> Act approved Sept. 26, 1940 (Public Law 792, 76th Cong.).



"To assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere by supplying funds, not to exceed \$500,000,000 outstanding at any one time, to the Export-Import Bank of Washington, through loans to, or by subscriptions to preferred stock of, such bank, to enable such bank, to make loans to any governments, their central banks, or any other acceptable banking institutions and when guaranteed by any such government, a central bank, or any other acceptable banking institution, to a political subdivision, agency, or national of any such government, notwithstanding any other provisions of law insofar as they may restrict or prohibit loans or other extensions of credit to, or other transactions with, the governments of the countries of the Western Hemisphere or their agencies or nationals:"

The new statements relating to the Johnson Act and the Neutrality Act are embodied in the proviso:

"That no such loans shall be made in violation of international law as interpreted by the Department of State, or of the Act of April 13, of 1934 (48 Stat. 574), or of the Neutrality Act of 1939. Upon the written request of the Federal Loan Administrator, with the approval of the President, the bank is authorized, subject to such conditions and limitations as may be set forth in such request or approval, to exercise the powers and perform the functions herein set forth. Such loans may be made and administered in such manner and upon such terms and conditions as the bank may determine."<sup>14</sup>

The Export-Import Bank became thus a definite instrument of American foreign policy.

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<sup>14</sup> Act approved Sept. 26, 1940 (Public Law 792, 76th Cong.). The earlier proviso, relating to the first \$200,000,000 of credits, stating that loans should not be extended to borrowers whose governments were in default to this Government on Apr. 13, 1934, was still retained in the unamended part of the act.



From the time of the passage of the amendments the whole orientation of the enterprise changed. For one thing, the amendment associated the additional \$500,000,000 with the need for assistance in the development of resources of the other American republics.<sup>15</sup> In support of the bill the importance of strategic materials was stressed. Furthermore, the idea of economic support to neighboring countries as an aid to foreign policy was in the foreground.<sup>16</sup>

With the changes in the law came the use of other criteria in the approval of particular loans—notably the attempts to speed the production and to support those types of enterprises which would strengthen the economic structure of the other American republics, either specifically or through general improvements in their economic condition, and thereby assist in the defense of the Western Hemisphere.

Secretary Hull's speech before the Habana conference on July 22, 1940 had emphasized the need for closer economic relations among the American republics and had discussed the importance of special measures for handling surpluses, and the desirability for strengthening the Inter-American Financial and Economic Advisory Committee to assist in trade.<sup>17</sup> He also urged the expansion of various financial and advisory facilities to assist in trade in the Americas. Article XXV of the Final Act of the Habana conference followed along the lines of that speech.

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<sup>15</sup> Officials of the Bank have considered that the statement regarding the other American republics indicated only a potential limit on the loans outstanding at any time in that area. The over-all limit was increased to \$700,000,000.

<sup>16</sup> At approximately the time the bill was approved, that is on Sept. 22, 1940, a 10-year loan was authorized for the development of a Brazilian steel mill.

<sup>17</sup> See Hearings on H.R. 10212 (superseded by H.R. 10361), Aug. 6, 1940, etc., p. 6, of Committee on Banking and Currency. These hearings also give article XXV of the Final Act of the Habana conference. See Department of State *Bulletin* of Aug. 24, 1940, p. 141.

The President gave his support to the expansion of activities in a message and requested "that the Congress give prompt consideration to increasing the capital and lending power of the Export-Import Bank of Washington by \$500,000,000, and removing some of the restrictions on its operations to the end that the Bank may be of greater assistance to our neighbors south of the Rio Grande, including financing the handling and orderly marketing of some part of their surpluses."<sup>18</sup>

In the hearings the Secretary of Commerce in reply to a question said that this amendment would constitute a departure from the theory of the Export-Import Bank as it had hitherto operated. At the same time he stated that it did not involve a shift from the policy of "trying to aid American exporters and manufacturers in their foreign business." The bill was designed mainly to enlarge the scope of the Bank and to adjust it to the changing needs. In the discussions of the past operations, figures presented for the commitments and disbursements showed that as of June 30, 1940 the commitments to Europe exceeded those to the other American republics, while disbursements under credits extended amounted to about \$84,000,000 to Europe and China as compared with about \$73,000,000 to the other American republics.<sup>19</sup>

The prolonged debate of the 1940 amendment was largely dominated by current arguments on defense measures and on neutrality legislation. In the Senate report of August 6, 1940<sup>20</sup> Senator Wagner, referring in each paragraph to some aspect of the war emergency, praised the past record of the Bank and urged its expansion "as a means of securing the total defense of the United States."

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<sup>18</sup> Department of State *Bulletin* of July 27, 1940, p. 41. See Hearing on S. 4204 before the Committee on Banking and Currency, 76th Cong., July 30, 1940, pp. 2, 3, 4, and 5.

<sup>19</sup> See Hearings on S. 4204, July 30, 1940, pp. 26-37.

<sup>20</sup> S. Rept. 2005, 76th Cong.

In contrast to the majority-committee support of the Bank, the minority views indicated fears that the "cartel" plan suggested at Habana "is not necessarily to end with the war or the economic dislocation caused by the war . . . the present bill, therefore, is part of a new economic policy."<sup>21</sup> The main emphasis of the objections at this time was that the attempt to control surplus commodities was harmful, that this aid to South America is not an advisable foreign policy, and that the new policy had a "distinctly anti-German flavor".

In view of the enormous war costs and the expenditures under lend-lease, the \$700,000,000 limit of the Export-Import Bank seems small almost to the point of insignificance. To gain some idea of size and importance, one can note that expenditures from loans extended between 1940 and 1944 were not much larger than those under lend-lease<sup>22</sup> and probably less than expenditures through the office of the Coordinator of Inter-American Affairs. Expenditures under lend-lease to the other American republics are reported to have amounted to approximately \$172,000,000 on June 30, 1944, while the amounts of Export-Import Bank disbursements between January 1940 and June 1944 had been approximately \$200,000,000. Moreover, the purchases and commitments of the Rubber Reserve Corporation and the Metals Reserve Company were also substantial in amount. Admittedly, the economic effects in the other American republics of loans, purchases, and lend-lease vary greatly in different cases. Some of the funds are spent in the United States and some in the borrowing or receiving country. Thus, the comparison among the different categories and amounts cannot be carried far.

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<sup>21</sup> *Ibid.*, p. 5.

<sup>22</sup> Message from the President of the United States, Transmitting the 16th Report to Congress on Lend-Lease Operations for the Period Ended June 30, 1944 (Washington, 1944), p. 56.

## THE BANK AS A SUPPORTER OF DEVELOPMENT PROJECTS

Particular interest has been attracted by the activities of the Bank in Brazil. They have also been the largest of a considerable number of projects financed for any of the other American republics.<sup>23</sup> The largest disbursements to one country were, however, outside this hemisphere: \$116,000,000 in credits, the bulk of which were authorized in 1940, were extended to China.

Vivid accounts of the Brazilian steel and transportation loans make them appear to be of substantial importance to the United States in strengthening productive resources in the Western Hemisphere and, more specifically, to be of a considerable consequence to Brazil. In the case of the Companhia Siderúrgica Nacional, a large development about 90 miles from Rio, the Brazilian Government matched the first \$25,000,000 lent by the Bank. Thus, the effect of the \$45,000,000 worth of United States credits and equipment was increased to the scope of a \$70,000,000 project. Brazil owns the mills, with shares held by the Government, savings banks, and other groups. Since it has been estimated by some that Brazil may prove to have the largest iron-ore resources in the world, this enterprise has long-range implications beyond its possible significance in the war period. The other most conspicuous commitment to Brazil was made for aid in the development of the Itabira iron mines by means of improving the transportation. This loan was to be amortized over 25 years at four percent and was to be serv-

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<sup>23</sup>Another series of loans in connection with the Inter-American Highway and various types of credits to the smaller countries merit attention. The disbursements for Cuba under Export-Import Bank loans included some funds for development. Several of the loans to Venezuela, Costa Rica, Ecuador, Haiti, and other countries affected wages and economic conditions in those countries. The projects designed to increase diversification and to improve irrigation and transportation as well as to assist low-cost housing developments were included.



iced in part from the proceeds of ore delivered at an agreed price.<sup>24</sup>

Mr. Pierson is quoted as saying that the object of loans such as those to Brazil was to help the other American republics to build up their industries and thus to "decolonize" them. He suggests that Europe had not been too sympathetic in the past but that the United States was clearly anxious to encourage constructive development of this type.

In 1942, at the conference at Rio and subsequently, there were discussions, in connection with the Export-Import Bank and the developmental projects, of the manner of maintaining adequate standards of government personnel, of assuring the necessary competence and initiative,<sup>25</sup> and of preventing the funds from being squandered on useless projects. The Inter-American Financial and Economic Advisory Committee in August 1942 advised the other American republics to proceed with various types of plans and studies.<sup>25</sup> There was recognition of doubts as to the accomplishments of some of the developmental projects and as to the possible loss of some of their popular support locally.

The projects in Cuba, approved in 1941 under the National Development Commission and financed in whole or in part by the Export-Import Bank, are varied. The projects, which totalled \$25,000,000, included those for highways, irrigation, warehouses, agricultural machinery, and telegraph equipment, and other types of capital expenditures. The strictly national projects, with the use of United States credit, have succeeded bet-

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<sup>24</sup> Department of State *Bulletin* of Mar. 7, 1942, p. 205.

<sup>25</sup> An outgrowth of Export-Import Bank and other financing in the other American republics has been the setting-up of 21 Inter-American Development Commissions. See Department of State *Bulletin* of May 6, 1944, p. 415. These were established on the recommendation of the Inter-American Financial and Economic Advisory Committee created earlier by the Pan American conference of 1939 at Panamá. See Department of State *Bulletin* of Nov. 18, 1939, p. 564.



ter than those with a large share of United States direct participation.

## PRINCIPLES AND TECHNIQUES OF THE BANK

The general principles governing foreign lending by the United States Government are the results of broad economic and political aims in the international field. Only rarely, however, are the economic criteria in selection and administration modified in any significant degree by non-economic considerations. The activities of the Bank are in most respects similar to those undertaken by sound financial institutions with comparable resources. Some of the standards for granting credits can be indicated briefly. It is generally agreed that loans from public funds must be beneficial to both lender and borrower. Moreover, the projects must be sound in that they add strength to the entire economic fabric and provide the means for repayment of the loans. When a government is the borrower, the loans, provided they have a favorable effect on the economy and thus exert a favorable influence on revenues, need not be self-liquidating.

The Export-Import Bank insists on the assurance that managerial and technical ability be of a high caliber. It examines the projects in view of their effect on established interests and also scrutinizes the loans to assure that they do not compete with private financing, where credits are available on reasonable terms.

### *Financial Status*

(as of November 15, 1944)

|   |                        |
|---|------------------------|
| Total Commitments . . . . .   | \$1, 195, 203, 549. 96 |
| Total Cancellations and Expirations . . . . .                                     | 353, 158, 138. 44      |
| Total Disbursements . . . . .   | 475, 003, 851. 00      |
| Total Repayments . . . . .  | 251, 696, 494. 76      |
| Total Outstanding Loans . . . . .   | 223, 307, 356. 33      |
| Balance of Commitments Not Yet Disbursed . . . . .                                | 367, 041, 560. 44      |
| Total of Outstanding Loans and Balance of Commitments Not Yet Disbursed . . . . . | 590, 348, 916. 77      |

Whenever possible the loans granted are limited to the dollar requirements of the borrower and are not used to meet internal obligations and expenditures in local currencies. Some few exceptions have been made to this guiding principle. With a view to the long-run interests of the countries concerned, attention is given to the size of the obligations being assumed, to the prospects of repayment, and to the promotion of friendly relations by protecting the rights of borrower and lender and by avoiding provisions that may lead to misunderstandings.

The resources and experience of the Reconstruction Finance Corporation have always been of substantial help to the Export-Import Bank. The RFC was first authorized to extend foreign loans in 1932 when it was empowered to finance the exportation of agricultural surpluses and to aid commerce in other ways. While it continued to exercise these functions after 1934, it also furnished some of its funds to the Export-Import Bank by purchasing preferred stock.<sup>26</sup> In addition to direct relations in connection with the sale of stock by the Export-Import Bank to the RFC, the interchange of ideas and expert knowledge has always been valuable in increasing the effectiveness of operations.

The techniques adopted by the Bank are familiar procedures. No attempt has been made at rigid standardization. The methods are designed to make certain that funds are devoted solely to the realization of the purpose of the loan and that expenses are kept to a minimum. It has aimed in part, by modifying ordinary financial procedures, to fill two main gaps in private facilities: the need for medium-term credit for commodities usually financed on a 90-day basis and the use of foreign

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<sup>26</sup> Hearings on S. 3069, Feb. 19, 1940, p. 44. In the discussion the Secretary of Commerce said "the bank practically belongs to the R. F. C., so it does not matter whether we lend the money or buy the stock" of the Export-Import Bank.

funds for projects of broad local significance which might not yield immediate and direct dollar profits.

The Bank has lent in dollars and has been repaid in dollars, thus assuming no exchange risk. The borrowers do not, as was so often the case in the loans to European countries after the first World War, incur large debts in foreign exchange to pay for an internal expenditure. Loans are made rarely in lump sums. They usually result in the establishment of a line of credit. The borrower uses only as much as he needs and pays no interest on the remainder authorized. Most of the loans led directly to purchases of United States goods for export; some few were spent locally on goods and services.

Interest rates were low, relative to the yields on many securities of the other American republics and on others which are comparable. The rate on stabilization credits was either 3 or 3.6 percent and on developmental and other types, 4 percent. Since the volume of lending in each country was small, the influence of these rates is not clearly discernible. In fact it is usually assumed that as long as there is no direct or substantial competition with private loans little influence is to be expected. Opinions among economists differ as to the degree that loans by the Bank affect other borrowing.

In general, new lines of credit are not opened unless there is a probability for early use. The financing of individual loans usually takes the form of revolving credits set up locally by the government concerned to handle day-to-day expenditures. Usually each note bears its own authorization so that the total period is based on the time when the credits are actually used and not on the time when the line of credits was opened. The Export-Import Bank has used commercial banks as agents wherever possible, assuming part of the financial risks and dividing the return with the agent. This procedure has lessened the need for larger sales of preferred-stock borrowing from the RFC.

Although the length of life of the loans varied, most of the export and development credits run from 10 to 16 years, a few longer. Repayments are scheduled to begin at the earliest practicable date. This provision facilitates a gradual adjustment of the debtor and creditor to the transfer of principal in settlement of the debt.

The conditions on which the loans are granted usually include the employment of able technicians and engineers. The initiative for the loans has come sometimes from the foreign borrower and sometimes from the United States exporter or engineering firm. Frequently United States private institutions make the actual advances under an agreement of reimbursement. Sometimes they carry a share of the financing. When a loan is made for the sole purpose of financing the export of capital goods, it is the practice to assist other institutions through the purchase of the obligations issued by the foreign borrower. Sometimes the foreign agencies have participated on a considerable scale. The advisory and supervisory functions of the Bank have varied.

### TYPES OF OPERATIONS

At all times the Bank has aimed at strengthening the economic position of this country and the other American republics. In recent years activities have been guided to some extent by broad considerations of defense. So far the loans have been fairly well distributed between short- and long-run projects. Although classification is difficult, a few main types can be noted briefly.

In the early efforts of the Bank, loans were made to facilitate the marketing abroad of surpluses of agricultural products and heavy goods which were hanging over the market in the depression years. Such commodities as cotton and tobacco were sold widely in small quantities to European countries.<sup>27</sup>

Loans were made that were definitely influenced by broad international considerations, notably the

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<sup>27</sup> Commitments in this category were made to Spain, Czechoslovakia, Italy, Denmark, Norway, and Sweden.



ones made to China and Finland. Some of those loans made to the other American republics have also been in this category. The goods transactions which were arranged in connection with these advances were, however, similar to those designed to aid United States business.

Two types of exchange and monetary assistance were rendered by the Bank. The favorable influence of credits on the exchanges is illustrated by the advance to Peru. This credit however was not used because pressure on the exchange rate disappeared when it was known that dollar funds were available. Some credits for the Bank of Brazil were related to the exchange problems of 1936 and thereafter, more particularly the blocking of milreis balances. A number of other loans for the other American republics were in this category.<sup>28</sup>

Another type of transaction, namely that for developmental projects, was evident first in the early loans to Chile and Haiti. Larger projects in Brazil and numerous advances to *fomento* and other public agencies followed. The Bank has found in some cases that government agencies, such as the development corporations in the other American republics, have provided satisfactory vehicles through which credits can be used. These loans were designed to aid in the diversification and strengthening of the economies of the other American republics and also to facilitate United States exports and healthy economic relations with this country. Transportation, electrification, and other similar categories can be distinguished from those to develop natural resources, those for industry, those for export of capital goods, and those in which management and technical assistance play a large part.<sup>29</sup>

Closely related to development loans in motive, but distinguishable in fact, were the commitments

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<sup>28</sup> Loans of the monetary and exchange type were made to Brazil, Nicaragua, Paraguay, Peru, and Costa Rica.

<sup>29</sup> Loans in this last category were made to Chile, Bolivia, Haiti, Brazil, Venezuela, Ecuador, Costa Rica, Mexico, Uruguay, Panama, the Dominican Republic, and Cuba.



made to increase and speed the production of strategic materials. These were particularly evident in the more recent years, but in terms of dollars they do not, in fact, constitute a very large part of the whole.

There were a number of other authorizations which are difficult to classify but which are perhaps of equal significance. As signs of a diversification of the aid offered, there may be mentioned the loan to Cuba in connection with the coinage of silver, the arrangement to collect the notes of the Deutsche Getreide Handles Gesellschaft, and the Grain Stabilization Corporation. An attempt to find a clear pattern in the program of assistance in any case would be misleading.

To a considerable extent each transaction was viewed on its merits and was tested in relation to its effect on exports and general economic strength and also as a reasonable business arrangement. Within a broad framework of this sort, many advances could be made and a network of economic enterprise could be nourished and strengthened.

#### CONGRESSIONAL COMMENT ON THE ACTIVITIES

The Congress, in debate on the expansion of the Bank, has kept its obligations to the taxpayer in the foreground in considering whether the Export-Import Bank adds new costs and increases burdens of the taxpayer. It has on each occasion asked for the facts which would demonstrate the nature of the risk and possible losses. It has usually commended the administration of the Bank. It has approved adherence to a standard for public loans of the Bank similar to that of sound business undertakings. The Congress has also been concerned with the direct effects on United States production.

It has seemed necessary in the debates on the Bank to defend its operations in terms of the direct effect of loans on exports from this country. The statement made at one time that almost "every dollar" was spent in the United States seemed to carry considerable weight. Some of the discussions, in

fact, tended to be mercantilistic in that exports have been considered as ends with little or no consideration for eventual imports. Thus there was little evidence in the 1940 hearings of a long-range constructive trade outlook such as a new Congress may develop in support of more comprehensive measures.

Concern was evidenced in the 1940 hearings over the effect on international political relations. This concern was centered mainly around the neutral position of this Government and therefore was associated with the question of undesirable entanglement. There was apparently little fear of too much intervention in the other American republics. No comment was made on possible inflation in the borrowing country nor on the precautions the Bank was using to prevent inflation. No alarm was expressed over the danger that the international loans and new projects might bring about modifications in local economies.

It is apparent that arguments brought forward for expanding the Bank's activities in 1940 and the attitude of the Seventy-sixth Congress will not fit the problems that the Seventy-ninth Congress will face. Larger demands on the Bank will bring into the foreground to an increasing extent the questions of tariffs and imports and the question of repayment, not by individual firms and separate projects, but by national economies and large monetary areas. The problems of controls, discriminations, blocs, and exchange rates will be critical in the making of future financial decisions. A Bank of larger resources and effective world-wide scope will need strong national support in adjusting long-range international interests of all cooperating nations.

### THE OUTLOOK FOR THE FUTURE

In many specific ways the prospects facing a government bank with funds to lend abroad are vastly different now from those of five years ago. The dominating idea at that time was the defense of the Western Hemisphere from the threat of war.

Today, the dominating idea is the preparation for world-wide conversion and reconstruction. Already the emissaries of various governments have asked the Export-Import Bank for aid. Commitments to four or five governments have been made. The Bank is thus participating in European reconstruction in the first stages of a large effort at financial cooperation and physical rebuilding. Obviously the present resources of the Bank are small as compared with estimates of urgent post-war needs. Only a few hundred million dollars can be lent under present legislation. Larger resources are therefore likely to be proposed.

In the post-war years the Export-Import Bank will probably not be alone in the field of reconstruction. In fact it may carry only a portion of the total load. An international institution such as the proposed International Bank for Reconstruction and Development could take over many aspects of the reconstruction financing once it is in operation. There is little prospect, however, that a new bank will be on an operating basis in time to meet the first urgent requests. If the plan is adopted soon some time will still be required to make it a going concern. There is no reason to doubt the general capacity of the Export-Import Bank to finance various types of projects for European countries now and after the foundation of an international bank. It can finance quickly and efficiently business which either because of special interest, size, and maturity, or because of relations to former business arrangements may not be so appropriate for a world bank.

Since there will be large demands for American equipment and supplies, Export-Import loans are almost certain to be spent mainly on goods produced in the United States, irrespective of special clauses or policies designed to limit their uses. They can, in fact, offer real aid to United States business as soon as it is possible once more to ship goods abroad in large volume. The provision for additional commitments would enable the Bank to act quickly within an accepted framework of



THE DEPARTMENT OF STATE

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RECOMMENDATION FOR  
RENEWAL OF  
TRADE AGREEMENTS ACT

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Message of  
THE PRESIDENT

To the Congress

*March 26, 1945*



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# Recommendation for Renewal of Trade Agreements Act

## MESSAGE OF THE PRESIDENT TO THE CONGRESS

TO THE CONGRESS OF THE UNITED STATES: The coming victory of the United Nations means that they, and not their enemies, have power to establish the foundations of the future.

On April twenty-fifth their representatives will meet in San Francisco to draw up the Charter for the general Organization of the United Nations for security and peace. On this meeting and what comes after it our best hopes of a secure and peaceful world depend.

At the same time we know that we cannot succeed in building a peaceful world unless we build an economically healthy world. We are already taking decisive steps to this end. The efforts to improve currency relationships by the International Monetary Fund, to encourage international investments and make them more secure by the International Bank for Reconstruction and Development, to free the air for peaceful flight by the Chicago civil-aviation arrangements are part of that endeavor. So, too, is the proposed Food and Agriculture Organization of the United Nations.

We owe it to the vision of Secretary Hull that another of the essential measures we shall need to accomplish our objective has been tested and perfected by 10 years of notably successful experience under his leadership. You are all familiar with the Trade Agreements Act, which has been on the books since 1934 and which on three occasions, since that time, the Congress has renewed. The present law expires in June of this year. I recommend that it again be renewed so that the great work which Secretary Hull began may be continued.

Under him the reciprocal-trade-agreement program represented a sustained effort to reduce the barriers which the nations of the world maintained against each other's trade. If the economic foundations of the peace are to be as secure as the political foundations, it is clear that this effort must be continued, vigorously and effectively.

Trade is fundamental to the prosperity of nations, as it is of individuals. All of us earn our living by producing for some market, and all of us buy in some market most of the things we need. We do better, both as producers and consumers, when the markets upon which we depend are as large and rich and various and competitive as possible. The same is true of nations.

We have not always understood this, in the United States or in any other country. We have tried often to protect some special interest by excluding strangers' goods from competition. In the long run everyone has suffered.

In 1934 this country started on a wiser course. We enacted into law a standing offer to reduce our tariff barriers against the goods of any country which would do the same for us. We have entered into reciprocal trade agreements with 28 countries. Each one of these agreements reduced some foreign barriers against the exports of this country, reduced our barriers against some products of the other party to the bargain, and gave protection against discrimination by guaranteeing most-favored-nation treatment to us both. Each agreement increased the freedom of businessmen in both countries to buy and sell across national frontiers. The agreements have contributed to prosperity and good feeling here and in the other contracting countries.

The record of how trade agreements expand two-way trade is set forth in the 1943 report of the Committee on Ways and Means. This record shows that between 1934-35 and 1938-39 our exports to trade-agreement countries increased by 63 percent, while our shipments to non-agreement countries increased by only 32 percent; between these same periods, our imports from agreement

countries increased by 22 percent as compared with only 12 percent from non-agreement countries. The disruptions and dislocations resulting from the war make later comparisons impossible. The record published in 1943 is, nevertheless, as valid today as it was then. We know, without any doubt, that trade agreements build trade and that they will do so after the war as they did before. All sections of our population—labor, farmers, businessmen—have shared and will share in the benefits which increased trade brings.

Unfortunately, powerful forces operated against our efforts in the years after 1934. The most powerful were the steps of our present enemies to prepare themselves for the war they intended to let loose upon the world. They did this by subjecting every part of their business life, and especially their foreign trade, to the principle of guns instead of butter. In the face of the economic warfare which they waged, and the fear and counter-measures which their conduct caused in other countries, the success of Secretary Hull and his interdepartmental associates in scaling down trade barriers is all the more remarkable.

The coming total defeat of our enemies, and of the philosophy of conflict and aggression which they have represented, gives us a new chance and a better chance than we have ever had to bring about conditions under which the nations of the world substitute cooperation and sound business principles for warfare in economic relations.

It is essential that we move forward aggressively and make the most of this opportunity. Business people in all countries want to know the rules under which the post-war world will operate. Industry today is working almost wholly on war orders, but, once the victory is won, immediate decisions will have to be made as to what lines of peacetime production look most profitable for either old or new plants. In this process of reconversion, decisions will necessarily be influenced by what businessmen foresee as government policy. If it is clear that barriers to foreign trade are coming down all around the world, businessmen can and will direct

production to the things that look most promising under those conditions. In that case a real and large and permanent expansion of international trade becomes possible and likely.

But if the signs are otherwise, if it appears that no further loosening of barriers can be expected, everyone will act very differently. In that event we shall see built up in all countries new vested interests in a system of restrictions, and we shall have lost our opportunity for the greater prosperity that expanding trade brings.

I have urged renewal of the Trade Agreements Act. In order to be fully effective the act needs to be strengthened at one important point. You will remember that as passed in 1934 it authorized reductions in our tariff up to 50 percent of the rates then in effect. A good many of those reductions have been made, and those rates cannot be reduced further. Other reductions, smaller in amount, leave some remaining flexibility. In other cases, no reductions have been made at all, so that the full original authority remains.

You will realize that in negotiating agreements with any foreign country what we can accomplish depends on what both parties can contribute. In each of the agreements we have made, we have contributed reductions on products of special interest to the other party to the agreement, and we have obtained commensurate contributions in the form of concessions on products of special interest to us.

As to those countries, much of our original authority under the act has been used up. We are left in this situation: Great Britain and Canada, our largest peacetime customers, still maintain certain high barriers against our exports, just as we still have high barriers against theirs. Under the act as it now stands we do not have enough to offer these countries to serve as a basis for the further concessions we want from them. The same situation confronts us, although in a lesser degree, in the case of the other countries with whom we have already made agreements; these include France, the Netherlands, Belgium, Turkey, Sweden, Switzerland, and most of the American republics.



I therefore recommend that the 50 percent limit be brought up to date by an amendment that relates it to the rates of 1945 instead of 1934. Then we shall have the powers necessary to deal with all our friends on the basis of the existing situation.

The bill which the Chairman of the Ways and Means Committee has introduced in the House of Representatives, H.R. 2652, would accomplish the objectives I have in mind, and has my support.

This legislation is essential to the substantial increase in our foreign trade which is necessary for full employment and improved standards of living. It means more exports and it also means more imports. For we cannot hope to maintain exports at the levels necessary to furnish the additional markets we need for agriculture and industry—income for the farmer and jobs for labor—unless we are willing to take payments in imports. We must recognize, too, that we are now a creditor country and are destined to be so for some time to come. Unless we make it possible for Americans to buy goods and services widely and readily in the markets of the world, it will be impossible for other countries to pay what is owed us. It is also important to remember that imports mean much more than goods for ultimate consumers. They mean jobs and income at every stage of the processing and distribution channels through which the imports flow to the consumer. By reducing our own tariff in conjunction with the reduction by other countries of their trade barriers, we create jobs, get more for our money, and improve the standard of living of every American consumer.

This is no longer a question on which Republicans and Democrats should divide. The logic of events and our clear and pressing national interest must override our old party controversies. They must also override our sectional and special interests. We must all come to see that what is good for the United States is good for each of us, in economic affairs just as much as in any others.

We all know that the reduction of government-created barriers to trade will not solve all our trade

problems. The field of trade has many fronts, and we must try to get forward on each of them as rapidly and as wisely as we can. I shall continue therefore to explore the possibility also of reaching a common understanding with the friendly nations of the world on some of the other international trade problems that confront us. The appropriate committees of the Congress will be fully consulted as that work progresses. The purpose of the whole effort is to eliminate economic warfare, to make practical international cooperation effective on as many fronts as possible, and so to lay the economic basis for the secure and peaceful world we all desire.

When this trade-agreements legislation and the other legislation I have recommended to this Congress is adopted, and when the general Organization of the United Nations and their various special agencies, including one on trade, have been created and are functioning, we shall have made a good beginning at creating a workable kit of tools for the new world of international cooperation to which we all look forward. We shall be equipped to deal with the great overriding question of security, and with the crucial questions of money and exchange, international investment, trade, civil aviation, labor, and agriculture.

As I said in my message of February 12 on the Bretton Woods proposals:

"The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren can live."

THE WHITE HOUSE

*March 26, 1945*



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THE DEPARTMENT OF STATE

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# Security Against Renewed German Aggression

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*Statement by*

WILLIAM L. CLAYTON  
Assistant Secretary of State

*Before the*

Subcommittee on War Mobilization  
Senate Committee on Military Affairs

*June 25, 1945*



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# Security Against Renewed German Aggression

*Statement by WILLIAM L. CLAYTON*

**I**N ALL QUESTIONS affecting the treatment of Germany, the Department of State has one paramount objective—security against a renewed German aggression. And security can be assured only so long as there is agreement with our Allies on the basic principles of the treatment of Germany.

We have reached that agreement as far as the basic objectives of the occupation of Germany are concerned. The late President Roosevelt, Prime Minister Churchill, and Premier Stalin jointly announced in the communique from Yalta:

“We have agreed on common policies and plans for enforcing the unconditional surrender terms which we shall impose together on Nazi Germany . . .

“It is our inflexible purpose to destroy German militarism and Nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff that has repeatedly contrived the resurgence of German militarism; remove or destroy all German military equipment; eliminate or control all German industry that could be used for military production; bring all war criminals to just and swift punishment and exact reparation in kind for the destruction wrought by the Germans; wipe out the Nazi Party, Nazi laws, organizations and institutions, remove all Nazi and militarist influences from public office and from the cultural and economic life of the German people; and take in harmony such other measures in Germany as may be necessary to the future peace and safety of the world.”<sup>1</sup>

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<sup>1</sup> *Department of State Bulletin* of Feb. 18, 1945, p. 214.



The task of destroying the economic basis of German aggression is one that requires vigorous, simultaneous action along a number of lines. I am very glad to discuss this morning those three aspects of this problem on which your committee has asked me to report. These are: (1) the serious problem of Axis economic penetration in Latin America; (2) the problem of tracking down and frustrating German efforts to hide abroad a stake for another gamble of aggression; and (3) the question of the treatment of German cartels, combines, and technology.

## **I. Axis Replacement and Proclaimed-List Program in Latin America**

The unity in the Western Hemisphere which has been achieved by the American republics over the course of the past years has been not less remarkable than important. When the suspicion and mistrust with which the United States was regarded in the other republics not many years ago is recalled, it seems all the more remarkable that several of the other republics declared war on Japan after the treacherous attack on Pearl Harbor even before the United States did. It is a tribute to the wisdom of the good-neighbor policy and the strength of our friendly relations with the republics to the south that cooperation and mutual interest in the defense of the hemisphere should have marked all of the difficult years since Nazi aggression was first loosed on the world.

The importance of the other American republics to the defense of the United States of America can hardly be overemphasized. No testimony of mine is necessary to show the extent to which the United States has profited in obtaining bases and support in other of the American republics, or how much we might have been imperiled by enemy radio stations operating in countries from which it would have been extremely easy to follow the movements of our merchant ships, particularly in those crucial days when submarine warfare was at its most successful peak.

The problem of Axis penetration in the American republics was, both in 1939 and in 1941, a very

serious one. In the United States, although we had our Bund, our Fritz Kuhns, and our similar rabble, our economic system was not under the domination of such persons, nor was it likely to be gravely shaken by the elimination of these persons from our business economy. Some of the companies which have been vested by the Alien Property Custodian as German-dominated or -controlled are highly important in the American industrial picture, but they are not dominant concerns. Nor did our richly developed industrial system feel the problem of replacing undesirable personnel, however highly qualified for technical positions they may have been.

In the other American republics, or at least in many of them, the problem was quite different. In the field of drugs and pharmaceuticals, for example, the Bayer, Merck, and Schering companies enjoyed a virtual monopoly. I. G. Farben subsidiaries had a firm hold on the dye and chemical market. German enterprises such as Tubos Mannesmann, Ferrostaal, A.E.G., and Siemens-Schuckert played a dominant role in the construction, electrical, and engineering field. Shipping companies and, in some areas, German airlines were well entrenched. In addition, other strong pro-German firms were engaged in miscellaneous types of business, some of which were partly or wholly owned from Germany and some of which were wholly owned by persons of German origin who had acquired citizenship in one of the American republics. The Staudt companies, which were large dealers in wool, are typical examples of this type of enterprise.

In all of these cases, German capital represented a large proportion of the total business investment, and in many cases there were no competitive industries which were capable of serving the essential requirements of the local economy. The economic importance of German industry to the other American republics and the difficulties of eliminating and replacing that industry were, therefore, apparent.

The selection and designation of important enemy firms to be eliminated also presented serious

political problems, particularly in those countries which had strong opposition parties in the legislature. In some cases the other American republics had taken steps short of war against the Axis such as the severance of all commercial and political intercourse with Axis territory. Others had declared a state of belligerency. In the countries which took steps short of war, the constitutional authority of the administration to proceed with an elimination program was open to serious question. In many cases the worst of the Axis firms were incorporated under local law and well able to claim the protection of the courts. In some cases it was claimed that the beneficial ownership was not German, which made it necessary laboriously to trace ownership through a maze of dummies and holding companies. Furthermore, many of the other American republics, perhaps to an even greater relative degree than the United States, have large numbers of citizens of German descent. In most cases these persons were loyal to the country of their domicile, just as most of those who live here are loyal Americans; but in each country there were, particularly under the impetus of Nazi successes, certain numbers of these persons who were willing to believe the pompous rantings of Hitler and his aides and who were trying to lead the countries in which they lived to the objectives envisaged by the Nazis.

The Department of State throughout this period has had to take full account of the many factors which make the eradication of Axis influence in the American republics a difficult and arduous job. In the first place, it was necessary to avoid putting the United States in the position of the whip-cracking "colossus of the North". More has been achieved by means of cooperation and an honest attempt to understand the problem of the other fellow than could have been achieved by dictation; and our long-range objective of sound and good neighborly relations has not been imperiled. In the second place, we have had to understand problems which do not appear to be very important when one is thousands of miles away but which are seen to be very serious when one is on the scene.

We have had to bear in mind that large bodies of Latin American citizens of German descent were present in many of the other American republics and that these persons, although perhaps loyal citizens, tended to regard as less dangerous than did we or did the local government the activities of German business houses and of Germans who had been resident for many years in the country.

Realizing also the difficulties of eliminating important business enterprises in economies which did not possess substitute enterprises, we have tried to work with the local governments in building up substitute enterprises. We have tried also to make sure that these successor enterprises remain in the hands of local nationals. We have been careful to avoid actions which would afford the slightest justification for an accusation that the United States used economic warfare controls in order to further the economic interests of its nationals.

Another problem which we had to contend with in the early days of the war was the difficulty of obtaining proof of Axis ownership, and of the extent of the inimical activities of these Axis spearheads, sufficient to support proceedings for their nationalization in a court of law. Our own ability to produce such evidence was limited since we did not then have access to the records of these firms in Germany nor were we able to seize the books and records of the firms in the other American republics. The cooperation of the other American republics and of our Allies was invaluable in making possible a mutual interchange of information concerning inimical activities in the hemisphere. The local police were able, on numerous occasions, to uncover evidence in spite of the elaborate security precautions which the Nazis had taken.

I should like to cite an illustration of this kind of cooperation. An agency of the Government of Uruguay seized the books and records of the Banco Aleman. The findings of that agency are summarized in English in a report which is contained in Exhibit 1. The extent of the participation of these spearhead firms in the Nazi plan, the value of their contribution to that plan, and



the insidious nature of their operations are clearly shown in this summary. Doubtless the full story will be forthcoming from an inspection of the records in Germany.

Through the cooperation of our British Allies, we obtained access to a large cache of mail from the Bayer subsidiary in Argentina to I. G. Farben industrie, Leverkusen, Germany, which was intercepted in 1943 at Gibraltar. Of particular interest are two letters from the Argentine subsidiary which summarize the position of the important Bayer companies as of mid-1943. English translations of the text of these two letters are available in Exhibit 2.

Another example of the cooperation between this Government and the other American republics is the work of the small mission which visited one of the Latin American republics in the fall of 1943. This mission, aiding those officers of the Embassy who had already been working on this problem, presented a set of objectives to the local government—a sort of statement of principles. After this was subscribed to by the local government, the members of the mission, together with officers of the Embassy, sat down at the conference table with officials of that government interested in the control of enemy business enterprises and in production and distribution in the country. In the mission were officers of the Department of State, of the Office of Alien Property Custodian, and independent experts who had been retained for the purpose by the Custodian. The result of this work over a period of a few weeks was a comprehensive report which went into the business of each of the important Axis companies in the country, indicated the manner in which those companies might be replaced without loss to the local economy, and mentioned those American companies which could make available either supplies or technical assistance in working out the replacement of the Axis concerns.

The basis for cooperation in the elimination of Axis-dominated companies was laid in the Rio de Janeiro conference in January 1942. Resolution V of that Conference, recalling the declara-



tion of the previous Conference in July 1940, that an attack by a non-American state on one of the American republics would be considered as an attack on all of them, recommends the elimination of all commercial and financial intercourse between the Western Hemisphere and the Axis. The resolution contemplated the elimination of "all other financial and commercial activities prejudicial to the welfare and security of the American republics". At the Conference held in Washington in June and July of 1942, these matters were elaborated, and it was recommended that the businesses of any persons who were acting against the political and economic independence or security of the American republics "shall be the object of forced transfer or total liquidation". Under certain circumstances, these companies may be the "object of blocking, occupation, or intervention". I offer copies of the resolutions of both these Conferences as Exhibits 3 and 4.

The adoption of these recommendations was not empty phrase-making. The resolutions were followed by action in almost all of the other American republics. Some of the legislation which was drafted in these other republics was based upon United States legislation in the field or was drafted with the assistance of United States experts. The legislation adopted in most countries was extremely effective and thorough-going. I am submitting for purposes of illustration, as Exhibits 5 and 6, copies of legislation enacted in Mexico and in Brazil, which, I believe, compare favorably with that of the United States.

Our missions in Latin America have, of course, worked energetically and zealously in following the progress made under this legislation, in discussing individual cases with the commissions, and working out with them particular methods of eliminating spearhead companies. In general, the policy has been to liquidate those spearhead firms whose disappearance would not injuriously affect the local economy. Whenever the enterprise was essential to the local economy, the procedure has usually been either to vest the business with all its assets in much the same way that the

Alien Property Custodian has moved against enemy property in this country, or to force the undesirable owner to sell to satisfactory purchasers. In many cases, of course, only some of the partners or stockholders were undesirable; and in these cases only the undesirable interest has been eliminated—either by a partial vesting of the assets of the firm or by a forced sale of the undesirable interest to a satisfactory purchaser. In all of these cases, the practice has been to block the payments accruing to the former owners.

This Government has also rendered such services as the issuance of a booklet giving medical equivalents for German products which were in common use in particular countries. Since German medicinals occupied a very important place in many of these countries, the issuance of such a booklet made simpler the problems of local doctors who were eager to cooperate by prescribing products manufactured by American or local concerns, but who were so accustomed to the German product that they often did not know whether an equivalent existed or was sold in the particular country.

A very good idea of what our goal has been and what has been actually accomplished can be gained from a list of the enterprises in the other American republics which are regarded as spearhead in character and the progress which has been made toward their total and permanent elimination. Such a list, compiled on a country-to-country basis, has been offered as Exhibit 7.

An examination of this document will, I believe, support the conclusion that encouraging results have been realized in the job of eliminating Axis spearhead firms in Latin America. We naturally expect to continue to press for the elimination of such firms in those countries where the task is not already substantially accomplished.

The Department of State has, of course, given much thought to the possibility that some of these Axis spearheads will survive the program which I have described, and to the related possibility that some of the former German owners may find ways to regain their control over enterprises from which they have been ousted. Steps have been

taken to guard against these possibilities by the addition of paragraphs in the various national laws on the subject to the effect that the assets in question may be transferred only to a national of the country concerned; or to the effect that such assets may not be transferred to German nationals. Assurances have been received from various American republics that the return of these properties to their former owners will not be allowed, and that the replacement program will continue unabated. Moreover, the Department of State has followed, on a case-by-case basis, the transfer of all Axis spearheads, as well as other Proclaimed List<sup>1</sup> properties, to make sure that the transfer was *bona fide* in each case. No man can look too far in the future. It seems a safe prediction, however, to say that German economic and political penetration in this hemisphere has, for the most part, been dealt a blow from which it will probably not recover; and that the prospects are reasonably bright for the substantial elimination of Axis spearhead firms even in the areas where they still survive.

The fact that the United Nations are now in possession of the head offices of these Axis concerns in Germany would, moreover, seem to put it within their power to take over any Axis firms that should remain untouched by the nationalization program. This is an approach which is now being considered in relation to the whole question of reparations and war claims. The present co-operative program of the other American republics to discover and block German and Japanese assets in this hemisphere—a matter which I shall discuss in some detail at a later point—strengthens the probability of further action and is a logical consequence of the replacement program which I have described.

At this point, I want to say a few words about

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<sup>1</sup> *The Proclaimed List of Certain Blocked Nationals*, issued periodically by the Secretary of State acting in conjunction with the Secretary of the Treasury, the Attorney General, the Secretary of Commerce, the Administrator of the Foreign Economic Administration, and the Director of the Office of Inter-American Affairs.

one of the weapons of economic warfare which has been wielded by the United States and which has been a most effective supplement in accomplishing the elimination of Axis influence in the Americas. This instrument, which has been used in consultation with the Governments of Great Britain and Canada, is the Proclaimed List. The List is designed to specify publicly those persons whom this Government considers to be undesirable and whom it, therefore, prescribes from communication or dealing with United States nationals under the Trading With the Enemy Act. The List contains the names of all kinds of persons—individuals whose political views publicly expressed are antagonistic to the Allied war effort as well as Axis branch companies. In the main, however, the List has been used as an instrument to designate those persons with whom trade was undesirable or prohibited. As a trading weapon, it has been much more effective than it would have been had it been used chiefly to designate persons who, for one reason or another, were undesirable, or persons who, however undesirable, carried on no business.

It should be understood, however, that the List is not a perfect weapon. Where local cooperation was not forthcoming, the List was much less effective than in those places where there was good local cooperation. If the citizens of a community insist on trading with a particular person even if he is on the Proclaimed List, the efforts of the United States to prevent him from getting goods from Allied sources and to deny him other commercial facilities do not have the maximum effect.

The chief problem in maintaining an effective Proclaimed List has been that of preventing goods from reaching the hands of Proclaimed List nationals through dummies. If a listed individual or concern attempts to order goods from the United States, he cannot receive them because all shipments of goods abroad are screened against the Proclaimed List. The Proclaimed List national therefore tries and tries again to order goods through dummies or cloaks. These dummies may be minor employees or insignificant individuals whose listing would cause them no real



concern; consignees are sometimes fictitious people, people who have long been dead, et cetera. Purchase of goods in the local market is another way of obtaining goods. These local purchases may, in the case of indigenous products, be made from the original producer; in the case of imported goods, purchases are made through cloaks so that often legitimate importers of United States goods innocently make sales which benefit Proclaimed List nationals.

The Department and the other agencies charged with the administration of the Proclaimed List have, in cooperation with the governments operating similar lists, made determined efforts to prevent any goods from reaching Proclaimed List nationals with the aim of depleting stocks and ultimately forcing liquidation or bankruptcy. The size of the task is illustrated by charts, offered as Exhibit 8, showing the total number of persons and firms on the List in this hemisphere and in each country in this hemisphere. For purposes of comparison, a similar chart of the listings in this hemisphere in the last war is offered as Exhibit 9, although I believe this chart does not reflect the size of the List in the last few weeks of that war. In addition to approximately 8,000 names on the List for this hemisphere, there are more than 5,000 names on the List for the European neutrals.

Because of our controls over shipping and supply, and because of the alert work of our missions in the field, I am glad to say that the Proclaimed List has been far more effective in this war than in the last and that, as a result of its operations, hundreds of firms have been reorganized so as to eliminate undesirable elements or have been forced to shut down. Only a small fraction of goods from this country ever reached Proclaimed List hands and, in the Western Hemisphere at least, the task of acquiring goods locally was made so difficult and expensive as to be generally prohibitive. The fear of inclusion in the List also has a strong deterrent effect on many whose cupidity might otherwise have led them into the enemy camp.

It has been necessary to keep in mind the de-



sirability of using the List only in so far as local controls were not effective to do the job. It has often been pointed out to us by our neighbors in the other American republics that we do not maintain a Proclaimed List in Great Britain or in Canada or in many other Allied nations.

Our reply has been that the List is not maintained in those countries where local controls are so effective as to make the List unnecessary; and as a corollary we have undertaken in public statements to withdraw the List first and most rapidly from those countries which cooperate with us in the elimination of Axis spearhead concerns. We have said in effect that if a country completely eliminated Axis influence in a firm like Bayer or Anilinas, we would be able to take off the Proclaimed List for that country not only the name of that reorganized company but also the names of a large number of people who had been listed for the offense of cloaking for the previous Axis company. In other words, we have said to the other American republics that if their controls were effective, in the same manner that Great Britain's are effective, we would then be prepared to withdraw the List from those countries.

Withdrawal in this manner does not imply in any way a whitewashing of all the persons taken from the List. It does not mean that a particular German national who has been on the List for two or three years has suddenly changed his stripes. It only means that we are carrying out the promise which necessarily had to be made to the other American republics that we would gradually withdraw the List from those countries which imposed effective local controls, and that we would then expect the local government to deal with the local undesirables.

I want to be extremely explicit about this point, lest it be mistakenly construed as an indication of softness or weakness in our economic policies. The policy stated in May and in September 1944 (and I attach as Exhibit 10 copies of these statements) is neither soft nor weak.<sup>1</sup> It is based on realistic

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<sup>1</sup> *Department of State Bulletin* of May 6, 1944, p. 409, and Oct. 1, 1944, p. 340.

and hard-headed recognition of the fact that local controls are much more effective than those imposed from a distance of thousands of miles. It is based on realization that the List is not liked by the other American republics and that, if we were proposing to continue the List without regard to local controls, they would have ample justification for complaining against our policy. It is based on the knowledge that our willingness to discuss the conditions under which we would be willing to withdraw the Proclaimed List, and to turn the situation over to local controls, accelerates the implementation of these local controls and the elimination of the dangerous Axis spearheads. Pursuant to this policy, the List in such countries as Mexico and Chile has been quite drastically cut in recent months. It may be cut again in the months to follow. All that these cuts mean is that local controls are considered effective, at least under conditions presently existing, and that we are carrying out our long-standing commitment to withdraw the List first from those countries which had imposed effective local controls. The others which have not imposed effective local controls may expect continuation of the List for some time to come.

Finally, I should like to point out that our so-called economic warfare objectives in the Western Hemisphere tend to change with changing war conditions. We no longer have to worry about blockade, about the dangerous Axis companies receiving supplies from Germany, or even, since we can handle the problem from Germany, about the reestablishment of trade relationships between the Western Hemisphere and Germany. What we do have to worry about are those persons who may be hiding Nazi loot or flight capital, and about the control of German investments in all of the republics. We are attacking these problems co-operatively with the other American republics just as we have cooperated in our economic warfare measures. The Mexico City Conference on Problems of War and Peace adopted a resolution in this connection which I should like to introduce as Exhibit 11.

The resolution, which was sponsored by Mexico, refers to documents which have been issued by some or all of the United Nations and adopts and reaffirms the principles and objectives of these documents. The documents in question are the declaration with respect to Axis acts of dispossession issued on January 5, 1943, the Gold Policy Declaration of February 22, 1944, and resolution VI of the Bretton Woods conference. The resolution resolves that the American republics will maintain existing measures in force so far as applicable and will take further measures to attain the objectives of these declarations and resolutions including specific further measures along lines stated in the resolution. I should like to quote two paragraphs from the Mexico City resolution XIX which I believe to be as good a statement of the problem as I have seen :

“There are reasons to believe that Germany and Japan will again attempt, in spite of their certain defeat, to conceal their property and property which they have unjustly obtained and which they have placed in other countries in order to finance, during the postwar period, activities of every sort inimical to the security and safety of the Western Hemisphere and of the world in general ;

“The peace and welfare of the postwar world must be based on justice and an organization that assures justice, and that, therefore, all necessary steps must be taken in a manner consistent with the laws and practices of each country to facilitate the location and restitution of property unjustly taken from the peoples of occupied countries, and the uncovering and treatment of hidden property, directly or indirectly originating in Germany or Japan or which is owned or controlled by Germany or Japan or by individuals and entities within such countries, all for the purpose of making it impossible again for Germany and Japan to be able to provoke and make war.”<sup>1</sup>

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<sup>1</sup> *Inter-American Conference on Problems of War and Peace* (Congress and Conference Series 47, Pan American Union, 1945), p. 47.

## II. The Safehaven Program

The Department of State has abundant evidence that the Nazis, in anticipation of military defeat, made careful plans to carry on in foreign countries a wide range of activities necessary to support an eventual resurgence of German power. For this purpose plans were made, and carried out in part, to transfer abroad sufficient funds and specially trained personnel to carry on pan-German activities, even while the Allied Armies were in occupation of Germany.

These instrumentalities through which the Germans planned to rebuild their military, economic, and political strength in foreign countries were principally the following: (1) the large foreign industrial concerns owned or controlled by such firms such as I. G. Farben, Siemens, Bosch, and Telefunken; (2) scientific research laboratories located in foreign countries for the development of new weapons and new industrial processes important to war; (3) subsidized colleges, technical schools, high schools, and elementary schools to spread pan-German doctrines; (4) German-owned or -controlled newspapers, magazines, and radio stations to spread anti-democratic propaganda and to create disunity among the peace-loving nations of the world.<sup>1</sup>

The nature, scope, and complexity of this program for the recreation of German military might has required during recent months, and will require for some time in the future, a carefully organized effort on the part of the United Nations to eliminate this German threat to international security. Although my remarks today will be almost wholly confined to the economic aspects of the problem, I want to assure you that this Government, in conjunction with other United Nations, is actively engaged in an integrated external security program aimed at frustrating the German plan.

The success of German efforts to carry on in foreign countries activities inimical to the United Nations must depend on their ability to mobilize

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<sup>1</sup> *Department of State Bulletin* of Apr. 1, 1945, p. 537.



funds to support the execution of their plans. Consequently, they have made strenuous efforts to move abroad assets of all kinds, which can be converted into funds for the financing of hostile activities.

Our Safehaven Program is a combined effort of the Department of State, the Treasury Department, and the Foreign Economic Administration to forestall German attempts to hide assets outside of Germany, particularly in the European neutral countries. I should like to describe in some detail the policies which we are putting into practice in the implementation of this program.

The Safehaven Program has the same general objective as the Replacement Program which I have already discussed. The object of both is to deny to Germany the economic bases of future aggression.

Operationally, both programs draw upon the vast amounts of information compiled by the Department of State during the war years, especially in its files developed for the administration of the Proclaimed List and related controls. A master index, containing approximately 500,000 names of individuals and concerns abroad, affords a ready reference for investigation of the relation of old cases to new transactions, and provides the focal points for the maintenance of vigilance over the scattered scraps of information which regularly come to our attention.

The Replacement and Safehaven Programs are both based upon the common knowledge that totalitarian Germany was able to marshal the ostensible private interests of German nationals abroad for the purpose of waging economic war. The Replacement Program was an earlier phase. Because of the cooperation of the other American republics, it was possible through the Replacement Program to combat German economic power in most American countries at a relatively early date after we entered the war. Moreover, the Western Hemisphere was isolated from German-occupied European areas by communications, blockade, and financial controls. Essentially, therefore, the problem in the other American re-



publics has been one of reducing and eliminating the pre-war economic potential of totalitarian Germany.

In neutral Europe the problem was to prevent growth as well. During the war, the Germans were able to siphon wealth out of Germany and occupied areas to neutral countries, because geographic contiguity greatly lessened the effect of controls of the sort that I have enumerated above. Germans passed from enemy Europe to the neutral countries completely free of Allied control over movement. Communications were open. It was not practicable until recently to turn the blockade against the importation into a neutral country of goods and other wealth from Germany. The presence in the neutral countries of German diplomatic missions, all swelled to abnormal proportions, was a tremendous additional advantage to Germany in furthering its objective of hiding a stake for another gamble.

Another difference between the Replacement and Safehaven Programs is that the former was voluntary, based upon the freely given commitments of the Western Hemisphere nations. The neutrals, however, resisted our requests for adequate local controls over German schemes, until our economic bargaining power and the obvious decline of Germany's military strength convinced them that another course was desirable.

The Safehaven Program concerns itself with denying to Germany, in the interests of justice and future security, the economic power arising from (a) the organized looting of occupied countries, (b) the flight of German capital in anticipation of defeat, and (c) the German capital investment already located abroad when the war began. Our chief efforts in this connection are directed against areas which have not cooperated in the extirpation of pre-war, and the prevention of war-time, Axis economic penetration. In the Western Hemisphere, Safehaven is of primary importance only where the Replacement Program has lagged or where there is reason to believe that blockade controls have been evaded with some frequency.

Perhaps it would be helpful at this point to

illustrate the ways in which Germany sought to build up and safeguard its foreign holdings of the types of property mentioned above. To demonstrate the possibilities inherent in intercorporate manipulation of German interests, I need only refer to the I. G. Farben empire, which the committee has previously studied. The extent to which holding companies within a single country can be misused to evade controls and hide true ownership is known to all of us from certain pages of the financial history of this country; we can, therefore, appreciate the possibilities when incorporations in several nations are employed. German enterprises frequently masked the true extent of German control in a particular country through the incorporation of holding companies in other countries, through the use of cloaks to hold German stock interests, and even by abandoning formal voting control but retaining a firm grip on the local industry through domination of technical processes used in manufacture.

The Germans have been aided in their attempts to mask the German interests in corporations chartered in neutral countries by the European preference for bearer shares and the restrictive requirements of certain European tax systems, which have made it customary for majority foreign interests in domestic corporations to be understated as minorities.

The potentialities of bearer shares are readily seen if it is recalled that such shares are negotiable by delivery and that it is exceedingly difficult to trace the chain of title to a particular bearer share. Thus, it was possible for the Germans to loot securities in bearer form in occupied territory and turn them over to an agent, who would then appear in a neutral country, posing as a valiant national of the occupied country, and proceed to exercise voting control of the local subsidiary, to the covert advantage of the Third Reich. Obviously, the bearer share seriously complicates the problem of achieving restitution of looted securities.

The importance of national taxation laws in relation to the concealment of true control is illustrated by the case of Spain. Since 1921 Spain's

tax laws have made it expedient for foreign capital to show no more than a 25-percent interest in domestic corporations, since the tax on foreign corporations was prohibitive. As a consequence, techniques were evolved long before the war for concealing the true facts of ownership, and the Germans made full use of such devices.

During and after the war, these schemes became expedient for Safehaven reasons as well. Moreover, business customs and practices in the interests of ordinary commercial secrecy have been used to advantage by the Germans.

All this is not to say that the laws of the various neutral states have designedly favored German schemes. Rather, the Germans have been clever enough to take advantage in this instance, as they have in so many others, of the liberality of foreign laws and practices. The Germans have also taken advantage on occasion of administrative inefficiency, non-feasance, and corruption. The extent to which this can be said in every neutral country to have been the fault of private individuals alone is problematical.

The Germans systematically looted all manner of valuable property, not only to satisfy the aesthetic sensibilities of such celebrated collectors as Goering but to acquire wealth cheaply for concealment abroad. Looting reached its nadir when gold was picked from the teeth of gas-chamber victims. A more subtle form of looting was outright "purchase" with occupation currency from fearful vendors.

The Nazis during their occupation of Belgium, the Netherlands, and France, confiscated or looted by various devices in contravention of the Hague Regulations of 1907, paintings and objects of art worth considerable sums. It is estimated that the value of such objects looted in Holland alone reaches approximately 200 million guilders or \$136,000,000. The total value of works of art confiscated or acquired by fictitious purchase in paper marks by the Nazis is estimated at more than a billion and a half dollars.

Among the German "buyers" or recipients of these works of art have been Goering, Hitler,

Goebbels, and Von Ribbentrop. The methods of acquisition included forced purchases with "occupation guilders", or with German marks pumped into the circulation of the occupied country. Some paintings were seized as Jewish property. Three of the agents engaged in acquiring works of art for Goering and the others were Alois Miedel in the Netherlands, Dr. Hans Wendland in France, and Andreas Hofer, the Berlin art dealer.

The Department of State has been active in liaison with the Roberts Commission, OSS, FEA, and the British Ministry of Economic Warfare in discovering, identifying, and listing these looted art objects with a view to aiding in their restitution to their rightful owners in accordance with the Hague Regulations. Looted art objects, because of the ease with which they can be concealed and smuggled, constitute one means by which the Nazis could transmit property abroad to be converted into cash for use in armament research and development, espionage, or propaganda.

The case of Alois Miedel furnishes an example of the successful discovery, identification, and immobilization of a valuable shipment of looted art. After the German occupation of Holland in May 1940, Miedel went to that country and acquired by the methods described above, on behalf of Goering and the others, a number of art collections, including the Goudstikker collection of Amsterdam. On July 24, 1944 three cases of paintings from France were deposited in the name of Alois Miedel in the free port of Bilbao, Spain, by the German firm of Baquera Kusche & Martin, a firm which was on the British Statutory List and the United States Proclaimed List for trading with the enemy. Ramon Talasac (also on the Proclaimed List) was the agent of B K & M in depositing the cases at Bilbao.

Confidential sources identified the shipment as including paintings from the Goudstikker collection confiscated by Miedel in 1940. It was reported that Miedel was engaged in smuggling looted works of art from France into Spain and endeavoring to dispose of them in Spain. As the result of confidential information transmitted to the Em-



bassies at London and Madrid, Miedel was placed on both the British Statutory List and the United States Proclaimed List for Spain. It was reported that in November or December 1944 the Spanish police issued an order for Miedel's arrest. Miedel had been arrested by Maquis on the French side of the border, but escaped back to Spain and disappeared.

In March 1945, the American Embassy in Madrid secured from the Spanish Foreign Office permission for a representative of the Embassy and for the Dutch Minister to inspect the paintings deposited at Bilbao. The American representative photographed the pictures. Of the 22 paintings, 10 were identified as belonging to the Goudstikker collection, one to the Van Oalst collection, and one to the Valkenburg collection. Among the artists represented were Corot, David, and Van Dyck.

The Dutch Minister was of the opinion that he would be able to repossess the paintings on the basis of the evidence thus secured.

The problem becomes more complex when the looting action rests upon the ostensible authority of a puppet government in enemy-occupied or -dominated territory, and when neutral nationals acquire an interest in the property under color of being *bona fide* purchasers for value.

The following is a classic example: Under the Vichy equivalent of the Nuremburg anti-Jewish laws, certain furs belonging to Simon Frères, Paris, were seized and sold at public auction to a collaborationist, one Radenac. These furs then appeared at the free port of Barcelona, Spain. By this time Radenac had acquired a prominent Spanish coadventurer. As soon as the case came to the attention of the American Embassy at Madrid, the Embassy invoked the Inter-Allied Declaration against Acts of Dispossession, which I shall discuss later, by calling the matter to the attention of the Spanish Government. Radenac was called in to the American Consulate General at Barcelona to explain. His explanations were unconvincing, and he was blacklisted by the British and ourselves. The word was spread around that a sim-



ilar fate awaited those who might buy the looted furs from him. Moreover, the effect of the Inter-Allied Declaration was to make it clear to potential purchasers that the United Nations would not recognize the validity of a title through Radenac. The French Mission was kept fully informed; and as France regained her diplomatic powers, she was able to take over the case herself *vis-à-vis* the Spanish and press for rectification of rights. The case is now before the courts in Spain, with the French claimant adequately represented by counsel. For the period of over 12 months between the arrival of the goods in Spain and this proceeding, dissipation was prevented by the efforts of the American missions in Spain and their British and French colleagues.

Having mentioned some of the schemes by which German external assets were cloaked and looted property turned to German economic advantage, I should like to discuss the third phase of Safehaven, the detection and control of German flight capital. It is not possible yet to state at exactly what time an official policy of hiding assets abroad was embraced by the Reich. Certainly such a policy was not generally adopted until after the flush of earlier blitz victories had well worn off.

Since the flight of Axis capital is the most recent and covert phase of German efforts to achieve Safehaven, you will understand that a great many cases are presently under active investigation, both in Germany and elsewhere, and that I must exercise care in mentioning names or localities. I should like, however, to illustrate some of the devices or techniques used to foster the flight of German economic power to neutral countries.

1. In some countries, such as Switzerland, a bank account may be kept by number rather than by name, and heavy penalties face the banker who violates the secrecy rule and discloses the identity of the owner of the account. Shifts from one numbered account to another within a single country can be confusing enough, to say nothing of movements between two countries where such systems exist, especially in view of the fact that the persons who are listed as the owners of the

numbered accounts may themselves be only cloaks for others. In our recent negotiations with Switzerland, we pressed for the lifting of the bank secrecy law. The Swiss decree, however, did not go beyond authorizing Swiss officials to conduct investigations regarding the identity of the owners of numbered accounts. Whether this change will yield beneficial results is yet to be seen.

2. Germans have also achieved foreign haven for flight capital by preventing the normal repatriation of German foreign earnings. German corporations have either not declared dividends or have not sought to convert them into marks. For example, the Deutsche Bank and Deutsche Orient Bank (Dresden Bank) branches located in Istanbul, Turkey, followed the policy of accumulating in Turkey rather than transmitting to their parent company in Germany their annual profits during their last eight years of operation.

3. Another device for achieving the same result was that of building up credits for Germans in neutral countries by deferring the payment for German exports. We have reports that Germans have dumped goods in neutral countries, granting very liberal credit terms. Lest this be too obvious, a two-price system was sometimes used, whereby lower fictitious prices would be paid through the clearing at the time of importation and sale, while the difference between the simulated price and the real price would remain a post-war credit in favor of the German shipper. Checking these reports indicates that the latter variation was sometimes used for heavy industrial exports of great value. There is little to show that Germany was able to dump consumers' goods in foreign markets in volume during the war. Germany did, however, strive to maintain the prestige and morale of her export organization, with the result, for example, that German radio and photography shops in neutral countries were well-stocked, in comparison with the bare shelves of American outlets.

4. During the war years German investment in neutral countries showed itself particularly disposed to enter concerns in which there was a substantial increment of neutral capital. It seems

fairly obvious that one reason for this was the expectation that in case of German disaster the neutral governments would be more reluctant to take measures against such concerns than against those in which neutral interests were less involved.

5. German liquid balances in neutral countries, particularly the earnings of Germans located in those countries, were frequently invested in income-producing real estate. This, again, is symptomatic, for neutral reluctance to interfere with existing titles to land at the instance of foreign states is based on inferences from the concept of sovereignty itself. Moreover, land cannot easily be frozen in a blocked account.

6. Finally, a very simple evasive tactic, time-tested by the last war, rests upon the short memory of man and his soon tiring of controlling Germany and Germans. The scheme was simply to dispose of property by a written instrument, absolute on its face, but delivered on a secret, oral understanding that it would become void in five years or so. Our reports indicate that the Germans as a general rule thought that five years was allowing enough time for this purpose.

Flight of capital is not of treasure alone; the brains and skills of men are also the subjects of German efforts to save potential strength for another war. This is especially true of German scientific and managerial personnel. We need only recall the flight of German technicians to surrounding areas after the first World War to appreciate the existence of a similar danger today. The problem is complicated by the fact that many German technicians have assumed, with fraudulent intent, citizenship in other countries. Moreover, there may be greater neutral reluctance to permit the extradition or repatriation of Germans not regarded as war criminals than to recognize Allied competence with respect to German assets abroad.

I should like to cite a few cases which illustrate these dangers. In a certain neutral country, the German electrical company, Telefunken, bought a plant in the summer of 1943. The plant was immediately modernized and enlarged. It now has complete facilities for testing the most intricate

short-wave radio equipment, and magnificently equipped laboratories for research in the ultra short-wave and tone-frequency field. As late as April of this year negotiations were in progress for the importation of skilled German technicians to work in this plant.

In another neutral country, the government was eager to encourage the growth of manufacturing in the national economy. A semi-official German organization presented a proposal to the government of this neutral country for the equipment and establishment of a technical-school system. A representative of an Allied government has seen the five-volume dossier containing the German offers. The Germans proposed to supply a very large quantity of machinery and equipment for purposes of production, research, and teaching. In addition, they proposed to construct a fully equipped plant for the production of machine tools.

The acceptance of this offer by the neutral government would have necessitated the employment of a large number of German teachers and technicians. The offer certainly did not arise out of simple commercial motives, for the Germans were willing to guarantee delivery within three months at the very time when German war industry was losing the battle of production. It seems clear that the plan was intended to establish a nucleus of German personnel and equipment beyond the reach of the Allies.

Aircraft repair establishments in the same neutral country ordered certain specialized machines from German suppliers in 1941. They were unable to obtain delivery until late in 1943, at which time they received, not the amount of equipment that they ordered, but five times as much. Much of this machinery, adaptable to the large-scale manufacture of aircraft, rests today in this neutral country, still uncrated.

Germans in foreign countries, who have now been cut off from their connections with German industry, may be expected to try to turn to United Nations trade as a means of preserving their position. They did this after the last war, and they



have had some experience along these lines in this war.

In one neutral country, Germans actually managed to derive large profits from the popularity and strong drawing power of American motion pictures. Their scheme was ingenious, and too long for recital here. They dealt with the unsuspecting American producers through a series of cloaks, and managed to get control of the exhibition rights of American films. The arrangement was broken up by a vigilant American diplomatic mission, which used its control over the importation and distribution of American raw-film stock to forestall the dubbing and copying of films whose exhibition rights were German-held.

The United Nations have been alive to the dangers of German Safehaven efforts throughout the war. It has been necessary, however, to adjust precautionary steps to particular stages of the war. The earliest economic security measures designed to extirpate Axis influence were those taken in the other American republics pursuant to the Replacement Program which I have already discussed. The next was the United Nations Declaration of January 5, 1943, a copy of which is herewith submitted for the record as Exhibit 12.<sup>1</sup> This declaration made it quite clear that the United Nations would not recognize the validity of property transfers in enemy-occupied Europe based upon Axis acts of spoliation.

The declaration was given wide publicity and was presented by the American missions abroad in a formal diplomatic manner to the various governments not then members of the United Nations. Others of the United Nations made parallel diplomatic presentations. The American embassies and legations throughout the world have been instructed, moreover, to invoke this declaration in bringing to the attention of each foreign government the fact that certain property located within its area is asserted to be loot. In this way it has been possible to forestall defenses based upon the doctrine of innocent purchaser for value. This policy was further implemented by vigorous

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<sup>1</sup> *Department of State Bulletin* of Jan. 9, 1943, p. 21.



blacklisting action. Individuals and concerns contemplating the purchase of looted property were warned that the consequences of their act would be certain inclusion in the American Proclaimed List and the British Statutory List.

Later, on February 22, 1944, the United States sponsored a specialized declaration, a copy of which I offer for the record as Exhibit 13, relating to looted gold. Studies by the Foreign Economic Administration indicated that by the time of that declaration Germany had more than exhausted all of her gold on hand when she entered the war, with the result that any gold thereafter purchased by the neutral countries from Germany would be presumed to be looted gold and hence within the non-recognition principle of the earlier United Nations Declaration. The gold declaration was given publicity and diplomatic presentation similar to that of the January 5, 1943 declaration.

The next step was the inclusion in the Bretton Woods agreement of resolution VI, a copy of which is offered as Exhibit 14.<sup>1</sup> This resolution broadened the scope of the earlier declarations to include enemy flight capital as well as looted property, thus illustrating a new danger that was beginning to arise as German defeat became more certain. This resolution has been given wide publicity and urged upon the United Nations for adoption as the general principle for dealing with flight capital and looted property.

Resolution XIX of the Mexico City Conference on Problems of War and Peace, which I have previously discussed, pledged the combined efforts of freedom-loving Western Hemisphere nations to forestall Axis concealment of assets abroad.

As the Safehaven problem grew more acute with time, and as the German position deteriorated, it was possible to bring additional pressure to bear on the neutral countries to recognize the expressions of basic policy which I have outlined above. For some time prior to Mr. Lauchlin Currie's mis-

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<sup>1</sup> *United Nations Monetary and Financial Conference, Final Act and Related Documents* (Department of State Publication 2187, Conference Series 55).

sion to Switzerland, representatives of the State Department, the Treasury Department, and the Foreign Economic Administration had been studying proposals for linking up Safehaven objectives with Anglo-American supply-purchase negotiations with the European neutrals. It was decided as a matter of basic policy that attainment of Safehaven objectives should be sought in such negotiations.

I should like to introduce for the information of the committee as Exhibit 15 a model note addressed to a neutral country regarding these objectives. In general, the neutral governments were called upon to subscribe to the principles of the declarations and resolutions mentioned heretofore and were requested to take the following implementing measures: (1) to freeze all German assets; (2) to investigate transactions since 1939 between persons subject to the laws of the particular country and persons in Axis or Axis-controlled territory; (3) to make the results of these investigations available to the United States Government; (4) to conduct a census to determine the extent of German ownership of assets located in the neutral country; and (5) to provide the United States with full information regarding persons of Axis nationality who entered the neutral country since 1939 and who are still there.<sup>1</sup>

The Swiss negotiations resulted in the enactment of a federal law in Switzerland providing for the blocking of German accounts and the initiation by the Swiss of a census of German property in that country. A copy of the Swiss decree is offered herewith as Exhibit 16. The collapse of Germany speeded the enactment of control legislation in Spain and Portugal.

The Spanish laws are herewith introduced as Exhibit 17. The Spanish decree of May 5, 1945 adhered to the principles of Bretton Woods resolution VI and provided for a general freezing control over the assets in Spain of subjects of Axis or Axis-dominated countries and gave broad discretion to the Minister of Foreign Affairs with respect

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<sup>1</sup> *Department of State Bulletin* of Oct. 8, 1944, p. 383.

to the implementation of the policy thus expressed. The Minister of Foreign Affairs, acting under this delegation of authority, has required corporations domiciled in Spain to report the capital therein owned by all nationals of Axis or Axis-dominated countries. A licensing system is provided for, and without a license all payments of dividends, debts, et cetera, to the nationals of Germany or territory formerly dominated by Germany are forbidden. The Portuguese decree is similar in tenor, but its operative effect is confined to the nationals of Germany, unlike the Spanish law, which affects all Axis nationals or the nationals of any country which the Germans had occupied during the war. Negotiations with the Swedish Government are proceeding relatively satisfactorily, according to our Legation at Stockholm. Sweden had suspended commercial and financial transactions with Germany prior to the latter's capitulation.

With German assets now frozen in the European neutral countries and Allied investigating teams scouring Germany for evidence of the German side of Safehaven transactions, it is expected that rapid and substantial progress will be made in isolating Germans from the economic power they have sought to maintain through illegal movements in neutral countries. A great deal, however, remains to be done. The Department of State is determined to press forward, in conjunction with the other executive agencies operating in this field, in order that economic security objectives may be attained and German property outside of Germany subjected to just claims against it.

It is the objective of the United States, regarding property looted from territories occupied by the Germans, to lend every assistance to the country from which the property was taken in order to obtain return of the property for adjudication of present rights to it. German capital abroad, whether flight capital or traditional German foreign investment, must bear its full share of German responsibility for this war. I am not in a position to make any additional statement regarding the ultimate disposition of German external

assets until after discussions with our Allies regarding fundamental reparations and German control policies have been completed. In the interim period, one of the most important tasks in which the Department of State is collaborating with the other civilian agencies is the study of evidence available in Germany regarding German economic penetration into the neutral countries and the Western Hemisphere.

During this period also, the Foreign Service abroad, the Department of State, and other interested agencies in Washington will continue their efforts to obtain information outside of Germany regarding the nature and extent of German holdings, to press for neutral controls which will immobilize German interests without prejudicing their ultimate disposition, and to formulate and study the principles which should govern the final settlement, to the end of assuring that Germany may never again be able to mobilize external assets for aggressive purposes.

### III. Cartels, Combines, and Technology

I should like to turn now to the question of German participation in international cartels. The development of an effective policy on this question requires parallel action with respect to German domestic cartels and combines, international combines in which German nationals have an interest, and the treatment of German technological information.

Our policy toward German participation in international cartels is governed by two considerations. The first follows from our general opposition to cartels as devices for the regulation of world trade, while the second follows from our knowledge of the special uses to which Germany has put the international cartel system.

Studies undertaken by the State Department and other Government agencies have shown that the so-called "normal" operation of cartel arrangements has had undesirable and dangerous economic consequences. Private agreements of a restrictive character which fix prices, allocate markets, determine the conditions of technological inter-



change, and establish production quotas have operated to curtail the availability of goods and services to the consumer, to enhance prices, and to curtail employment and purchasing power. We hope to achieve the concurrence of other governments in an agreement prohibiting participation of commercial enterprises in contracts and combinations which restrain international trade, restrict access to international markets, or foster monopolistic control in international trade.

Testimony previously presented to this committee and to other congressional committees has shown that the pre-war cartel system was used by Germany as an instrument of political and economic aggression. In our view the disarmament of Germany and the promotion of effective measures to prevent future military aggression by Germany requires that German participation in international cartels be promptly and effectively terminated, and that any future attempts to establish such relationships be prevented.

To put this policy into effect, we are proposing immediate action along several lines.

First, we propose to terminate German participation in all cartel contracts which fall within the following classes:

(a) Agreements between two or more sellers or between two or more buyers which provide for, or have the effect of, fixing prices or terms of sale, dividing or allocating markets or fields, assigning quotas or controlling production, capacity, sales, purchases, exports, or imports;

(b) Agreements between a buyer and one or more sellers or between a seller and one or more buyers which go beyond simple purchase and sale transactions or agency agreements and which accomplish any of the foregoing results;

(c) Agreements pertaining to patents which go beyond simple grants of exclusive or non-exclusive rights and which accomplish any of the foregoing results; and

(d) Any other agreements, without limitation, which come within the scope of certain German laws which provided the legal framework for cartels.



Secondly, in order that we may have a complete inventory of all international cartel agreements to which German nationals were parties, we are planning to require the registration of all international cartel agreements in effect in Germany at any time and for any period after January 1, 1933. A comprehensive collection of international cartel agreements should prove of immense value to us in revealing the location and magnitude of Germany's foreign assets and in disclosing in greater detail the extent of German economic penetration in foreign countries.

Thirdly, our proposal to terminate German participation in international cartels and similar organizations would be of little value if we did not take adequate steps to prevent the resumption of such relationships. Accordingly, not only do we intend to declare such resumption of cartel relationships to be illegal, but we also intend to press for the establishment of a system of policing all business communications between Germany and other countries. Under the proposed arrangements, all international business communications would come under military government surveillance, and all persons who are permitted to enter Germany during the occupation period, no matter what their official or semi-official status, would be required to submit all private business communications through official channels.

The failure to adopt such precautions would not only jeopardize the success of our security policy, but would also enable German firms to effect concealed transfers of foreign property to cartel partners or affiliated interests abroad in order to frustrate seizure.

It is a common observation that one country's domination of an international cartel is facilitated when all of the producers within that country act in unison. Such united action may be, and usually is, a consequence of the rigid cartelization of the domestic economy, or of the ownership by combines of all or predominant parts of the production facilities of major industries.

Consequently, the internal unification of the German economy will always entail the threat the

German economic strength may be wielded as a weapon of coercive power in international markets. Moreover, the concentration of business control in Germany would preserve the great economic and political power which rests in the hands of those same industrialists who financed Hitler and supported him until it became clear that he had lost his great gamble.

These considerations have led us to the conclusion that German domestic cartels, and other related German associations which have the character of cartels, such as Economic Groups, should be dissolved by the military government authorities.

It is recognized that German cartels and Economic Groups have, to an increasing extent under the Nazi regime, been used as semi-autonomous public organs to aid in the administration of government procurement, allocation, price stabilization, and standardization and rationalization programs in the field of production. However, in so far as these functions must be performed during the occupation period, it is our view that they should be performed, not by cartels, but by public administrative authorities, under the close supervision of military government.

As I have already suggested, Germany's position in international cartels, and the organization of her domestic economy through cartels and cartel-like organizations, is closely related to the existence within Germany of large business aggregates such as combines, communities of interest, and trusts. It would be unrealistic for us to advance a policy calling for a prohibition on German participation in international cartels, and dissolution of German domestic cartels, unless we were also prepared to deal with these other forms of business centralization. This problem is receiving our serious attention, to the end that decisive action may be taken to eliminate the dangers of German corporate combination.

Certain additional actions, which will be taken without primary reference to the policy I am now advancing, will have the direct effect of disestablishing German industrial control aggregations. To the extent that Germany is deprived of certain

parts of her territory, the international distribution of industrial units will be changed; disarmament and the prohibition on production of war materials will cause the elimination of many facilities which now form the main assets of certain combines; Allied administration of certain strategic industries such as coal, iron, electrical power, and transportation may deprive a number of combines of control over their main economic assets and thereby contribute to their dissolution. There will, however, be a considerable field in which we must take affirmative action in cooperation with other governments in order that the control which the larger industrial aggregates have exercised over the German economy shall be broken.

Although this aspect of the problem has been inadequately publicized, it has seemed to many of us that Germany's successful penetration of foreign economic systems has been achieved through the control of international corporate combines as often as through participation in international cartels. It is our view that continued German participation in such combines involves the same dangers to future security as does German participation in international cartels, and we take the view that equally firm defensive action is necessary in this field.

The first steps toward the dissolution of German international combines have already been taken. The various nations at war with Germany have vested or reduced to their control German interests in properties within their jurisdiction. Furthermore, we have reason to anticipate that properties in which German nationals have an interest and which are located in countries not at war with Germany will be claimed by the appropriate Allied powers either in the name of the Allied Control Council or the Allied Reparations Commission. Thus, the financial and corporate interests of German nationals located outside of Germany either have been seized or will be subject to seizure.

I should like now to turn to certain questions related to German technological information and scientific research. If we are prepared to acknowl-

edge that German research and scientific development have been important in the past, we must also be prepared to draw the obvious conclusion that the exclusive possession or control of certain kinds of advanced technology by German nationals involves a possible danger to our security and provides German nationals with important assets which in the past have induced other parties to join them in international cartel arrangements.

Our intentions with respect to German research and scientific information may be summarized as follows:

1. We intend to secure the full disclosure of all existing German technology and invention for the benefit of the United Nations.

2. Through seizure by the Governments of the United Nations of German-owned patent rights on inventions developed before and during the war, we shall be able to withhold from German nationals the usual technological assets which have proved to be the main inducements for other parties to join the Germans in international cartel arrangements.

3. We intend to allow organized research and invention in Germany during the period of military occupation only when we are fully satisfied that such research will not contribute to Germany's future war potential.

German technology developed prior to the war and disclosed in one manner or another in countries outside of Germany has already been subject to extensive action by the various United Nations. This Government and other governments with which Germany has been at war have reduced to their control inventions and designs both patented and unpatented which were owned and controlled by German nationals at the time of the outbreak of war.

The United States Alien Property Custodian has taken over all United States patents formerly owned and controlled by enemy nationals and has, in accordance with his general policy, extended non-exclusive royalty-free licenses on many such patents to any United States party making appli-



cation. Although the ultimate disposition of these enemy inventions is a matter to be determined by the Congress of the United States, it is probable that no steps will be taken by either the legislative or executive branch of this Government which would have the effect of returning such rights to the former German owners. These matters will undoubtedly be discussed in detail in the statement which will be submitted to this committee by the Alien Property Custodian.

As to the ultimate disposition of enemy-controlled assets now under the control of the other United Nations, it is believed that the general attitude of these governments will be to prevent such assets from again coming within the control of German nationals. When this Government through the Congress has made explicit its policy with respect to the disposition of enemy technological information, it is our view that it would be desirable to insure through diplomatic action the maximum degree of coordination between our policies and those of the other governments.

We may presume that the bulk of German inventions made before the war was disclosed in one manner or another in all the United Nations countries. We are aware, however, that the prosecution of the present war has caused an immense acceleration in industrial and scientific research in Germany and that the normal channels which made German technology available to us have been closed during the war. It is our view that we and the United Nations generally have an equitable claim against all German inventions made during the war, since the main reason for such research and subsequent development was to overthrow by military force the Government of the United States and its Allies. We have therefore taken certain steps to assure that important German scientific advance made during the war shall be known to us and put to such use as we deem desirable.

At the present time this Government in conjunction with the Government of the United Kingdom has despatched to Germany a group of industrial experts whose task it is to acquire all tech



nological information available in Germany which could be used in the prosecution of the war against Japan. Although these groups will be primarily concerned in acquiring those instruments, apparatus, and processes which are usually defined as war matériel, it is well known that the extent and scope of modern war is such that almost all technological inventions are relevant to its successful prosecution. We may, therefore, anticipate that the joint U. K.-U. S. technological missions will inspect, make inventories of, and acquire most of the important technological inventions made by our enemy during the war, and such other inventions as have not been disclosed in the United States and elsewhere through the issuance of patents to German nationals. We have already begun to receive information from our missions in Germany which indicates that scientific information of considerable value is being obtained.

Under existing arrangements a joint U.K.-U.S. group undertakes to acquire information at the request of various governmental agencies in the two countries. When the information is disseminated to the agencies involved, the responsibility of the acquiring group ceases. The policy to be pursued in disclosing and distributing the acquired information to civilian parties and organizations remains the responsibility of the government agencies who receive the information.

Naturally, a considerable portion of the acquired enemy technology has been assigned secret status by the U.K.-U.S. military authorities, since it is in the interest of the two governments that certain classes of information should not be directly or indirectly disclosed to our remaining enemy.

I may report, however, that various Government agencies concerned with the problems relating to enemy technology have been meeting on an informal basis to study the general policy which should govern the dissemination and disclosure of this information in the United States, the problems which might be encountered in such disclosures, and the question of agreements on these matters with other United Nations.

The tentative policies which have been adopted by the interested government agencies relating to the disclosure of enemy technological information to the public are as follows:

1. Technological information acquired in enemy territories by our military forces or other agencies may legitimately be used not only in the furtherance of our war effort against Japan, but also for post-war civilian purposes.

2. The security classifications which are necessary for reasons I have indicated should be abandoned from case to case as soon as it is assured that the disclosure of such information would not benefit our remaining enemy.

3. Subject to such limitations as may be required in the interest of security, all technological information collected in enemy countries or received as a result of exchanges with other Allied powers should be promptly and publicly disseminated within the United States. Furthermore, information which for security reasons may be temporarily withheld from public dissemination should be promptly disclosed when the security consideration ceases to apply.

The foregoing discussion summarizes our views of the problems raised by German cartels, combines, and technology, and indicates in broad terms the action we are taking and which we propose to take. We are, I believe, alive to the importance of these questions as they affect our national defense, and the protective measures to which we are committed have an important place in our broader program to checkmate German plans for a rebirth of German economic and military power.



# The Combined Boards

*By*

**COURTNEY C. BROWN**

*Formerly Adviser in the  
Office of International Trade Policy*

**DEPARTMENT OF STATE**

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# The Combined Boards

By

COURTNEY C. BROWN

**I**N JANUARY 1942 the United Nations were faced with serious supply problems. The Axis powers had succeeded in capturing important sources of some of our most essential raw materials. The operations on land and sea had diverted many normal trade routes and completely stopped others. Requirements for many materials had increased far beyond their peacetime levels. It was imperative that steps be taken to encourage production, facilitate the procurement, and conserve the use of supplies from sources that remained available to the United Nations.

The situation was particularly critical for a country such as the United Kingdom, which depends upon imports for a predominant part of its needs. It was therefore more than a financial matter. Without careful control of procurement by the United Nations, scarce exchange would be rapidly dissipated. But more important, without careful controls supplies of the materials themselves would be dissipated in diversion to uses in which they would make less than a full contribution to the needs of the war.

Faced with this situation, the late President Roosevelt and Prime Minister Churchill, with the assistance of responsible supply officers of their Governments, devised the administrative machinery of the Combined Boards.<sup>1</sup>

The inauguration of the several Boards reflects the order in which urgent supply problems appeared. In the early days of the war our principal concern was with the loss of rubber, tin, and certain other non-ferrous metals, coarse fibers for naval use, and other miscellaneous raw materials.

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<sup>1</sup> *Bulletin* of Jan. 31, 1942, p. 87.



These materials had been obtained in large quantities from the Philippines and the Netherlands Indies in the pre-war period. The Combined Raw Materials Board was one of the first of the several Boards to begin operations.

Extended transportation routes, loss of merchant shipping, and the great demands on transportation to move military supplies and personnel to bases in Africa, India, the United Kingdom, and the southwest Pacific were factors which meant that every ton of shipping should be used in the most effective manner. Both the United States and the United Kingdom had their own governmental machinery to adjust their import and export shipping programs; but maximum efficiency in the use of the ships available to the United Nations could not be realized without a central body that would look upon the combined fleets as a pool and would recommend transfers from one service to the other as the need might arise. The Combined Shipping Adjustment Board accordingly was inaugurated at the same time as the organization of the Combined Raw Materials Board.

The early activities of the Axis did not seriously jeopardize the major sources of food on which the United Nations had relied in pre-war years. There had been a succession of good crops in such important producing areas as the United States, Canada, Australia, and New Zealand. With the progress of the Germans through Europe, the Danubian basin and the dairy and hog-producing areas of northwestern Europe were closed off. Operation of the North Sea fisheries was seriously impaired. Also, the rice of Indochina, Thailand, and Burma was shut out by the Japanese, and the fats and oils of the Philippines and the Netherlands Indies were cut off. Sugar from Java and the Philippines was lost. By and large the food position was not a serious one, except in the United Kingdom, and even there the problem was more one of shipping than of supply. However, in June 1942 it was felt necessary to organize a combined board to deal with the food position when the much greater demands which related to the prosecution of a world-wide war began to impinge upon what

would have normally been regarded as an abundant supply.<sup>2</sup>

The Combined Production and Resources Board began at the same time to combine the production programs of the United States and the United Kingdom into a single integrated program and to assure the continuous adjustment of the combined program to meet changing military requirements. The Board was instructed to keep the Combined Chiefs of Staff and the Combined Munitions Assignment Board informed concerning the current availability and future possibilities of production, and in turn was to be informed concerning military requirements by those agencies. Canada accepted invitations to join the Combined Production and Resources Board in November 1942<sup>3</sup> and the Combined Food Board in October 1943.<sup>4</sup>

The term *Combined Boards*, as used in Government circles today, usually refers to these four civilian agencies: The Combined Raw Materials Board, the Combined Shipping Adjustment Board, the Combined Food Board, and the Combined Production and Resources Board. Other combined organizations such as the Munitions Assignment Board and the Anglo-American Area Committees and the various combined activities of the military, such as the Combined Chiefs of Staff and the Combined Civil Affairs Committee, are usually not included under the term. Close coordination of the activities of the Combined Boards has been maintained with other combined groups, both informally and through joint standing committees. With modifications, the activities of the Combined Raw Materials Board and the Combined Food Board are characteristic of the allocation activities of the groups that operate in the other fields of shipping, fabricated products, and munitions. This brief description of the beginning of the Boards emphasizes their basic nature and purpose. They were established to adjust difficult supply problems resulting from the conduct of a world-wide war.

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<sup>2</sup> *Bulletin* of June 13, 1942, p. 535.

<sup>3</sup> *Bulletin* of Jan. 16, 1943, p. 68.

<sup>4</sup> *Bulletin* of Oct. 30, 1943, p. 292.

It is interesting that the Boards as such have no staffs. The personnel is supplied by the assignment of officers of operating agencies of the participating governments who may spend all or part of their time on the work of the Boards. This arrangement has served to increase the effectiveness of recommendations made by the Boards. Since no authority is assumed for operating responsibility or for the implementation of recommendations, participation by personnel of operating agencies in the formulation of such recommendations lends additional assurance that they will be carried out. Authority for action is entirely in the national agencies of the member governments.

The organizational structures of the several Boards differ one from another, but again the Combined Raw Materials Board and the Combined Food Board are fairly representative. First, there is the Board itself, which consists of one representative of each of the participating countries. The United States side of the Combined Raw Materials Board is made up of officials employed by the War Production Board. A vice chairman of the War Production Board represents this country as the Board member.

An important unit of the Combined Raw Materials Board is its Advisory Operating Committee, composed of representatives of all the British and American Government departments concerned with the Board's work. Representatives of the Department of State, the Department of Commerce, the Foreign Economic Administration, and the War Production Board participate with their British counterparts in the discussions of this Committee. After a statistical review by the combined staffs recommendations that are formulated are presented to the Operating Committee before being transmitted to the Board members for confirmation. It is seldom possible to work out a recommendation involving an international commodity without affecting the interests of third countries. Informal discussion with such third countries may precede the submittal of a proposal to the Operating Committee. Consideration has

been given to more formal discussion with non-participating countries.

The Combined Food Board operates with a slightly more elaborate organization. The War Food Administrator represents the United States as the Board member. In place of a single advisory operating committee, a number of international commodity subcommittees develop programs which are submitted to the Executive Officers of the Board prior to final approval by the members themselves. On the United States side, these commodity subcommittees include a spokesman from the War Food Administration who works out his preliminary position with representatives from the Department of State, the Foreign Economic Administration, and frequently the military.

In a number of cases, countries whose interests are significantly affected by the recommendations of the Combined Food Board have accepted invitations to designate representatives to participate in the work of these commodity subcommittees. In some cases, from four to as many as seven or eight countries now send designated officers to the discussions. It is the function of these committees to review periodically all data on production, consumption requirements, and exportable surpluses of the Allied and neutral nations.

The problems arising out of restricted participation in the Combined Raw Materials Board and the Combined Food Board are recognized. The advantages of quick decision with smaller numbers have weighed heavily in the decision to limit the participation in an activity that has been established essentially for the business of effectively prosecuting a war. Moreover, there is substantial agreement that the Boards in their present form do not lend themselves readily to the solution of post-war international trade and that in many respects they are inconsistent with longer term liberal trade policy. Presumably the Boards will gradually wither away as the supply problems that gave rise to them diminish in intensity. It does not appear desirable therefore to undertake at this time an elaboration of the Boards' organiza-



tion by the addition of representatives of many countries.

The staffs of the Boards have looked upon the supplies of specific items available to the United Nations as a pool and have worked out recommendations for the distribution of the total quantity in ways that would best serve the war interest and, at the same time, would be as equitable as possible. This allocation process involves a careful study of world supplies on the one hand and requirements on the other, always keeping in mind transportation possibilities. The study of supplies that will be available must necessarily include a discussion of quantities already on hand, so-called "stockpiles", as well as production prospects. The study of requirements includes the consideration of both levels of consumption or use and the nature of the use in terms of its contribution to the war effort.

When the necessary data have been gathered, a recommendation is made dividing up the total among the several claimant countries. These allocations may take the form of assignment of specific quantities from particular sources to each consuming country, or they may merely indicate the sources from which each country is to procure its needs without specifying quantities. Frequently the recommendations go further to provide for the procurement of identified supplies by a designated country for its own account and for the account of other receiving countries. The corollary to this provision is that other countries participating in the recommendations agree to stay out of that particular market.

The allocation of supplies and the arrangement of procurement is by far the most important activity of the Combined Raw Materials Board and the Combined Food Board. The assignment of a market in which to buy exclusively sometimes carries with it a responsibility that the operating agencies of the procuring country do whatever they can to maximize production. Recommendations have also been made from time to time to conserve supplies by reducing the levels of consumption or substituting alternative materials in



specific uses. Finally, the Boards have undertaken many general studies of a statistical nature which, if the situation requires, are kept up to date as a means of anticipating the development of a short-supply situation and, if possible, of preventing its occurrence.

The Boards' recommendations can be made effective only by the application of import and export controls or by the assignment of transportation. An arrangement that provides for a specific amount of a commodity to be delivered from a given country to another country can be realized on the positive side only if steps are taken to arrange its procurement and transportation and on the negative side only if others are induced to withdraw from procuring and transporting. This arrangement has meant that the allocation recommendations must be closely geared into the assignment of shipping voyages by the shipping authorities of the participating countries in conformity with recommendations of the Combined Shipping Adjustment Board.

The whole operation is complex, but it has worked remarkably well in rationalizing the production, procurement, and distribution of short-supply items in the interest of the war. In essence it has achieved an administration of international trade in those commodities selected by the Boards for attention which have been in short supply but which at the same time are essential for the prosecution of the war and for the maintenance of essential civilian economies. Occasionally, allocation recommendations have been made to prevent a wasteful use of shipping space in transporting commodities that were not seriously short. The framework of the operations and the pattern of the recommendations have been geared to the problems of scarcity.

Many world commodities are still critically short relative to basic needs. In those cases where a condition of critical wartime scarcity has given way to one of more comfortable supplies, the Boards have withdrawn their administrative recommendations and returned the trade to a normal basis. It is important that such action be

taken, else the allocation to receiving countries of scarce supplies, in substance, would become the allocation to producing countries of markets in which to sell surplus supplies. The Boards are recognized as instruments of war policy, and the incompatibility of the nature of their operations with post-war liberal trade objectives is an accepted part of the thinking of United States Government officials responsible for their administration.

In a series of discussions last January with representatives of Canada and the United Kingdom, reconsideration was given to the future of the Combined Boards.<sup>5</sup> These discussions resulted in the drafting of agreed terms of reference for their future conduct. The Boards as such will continue for the duration of the war with Japan. In the administration of their work, however, carefully formulated criteria have been agreed upon to assure their withdrawal from administrative direction of international trade in specific commodities or products as the supply situation permits. It is hoped that in this way there can be a gradual liquidation of the Boards' activities and an orderly transition from the controlled trade of the war period to a condition in which international merchants may again be free to trade in world commodities and products in ways that will be as little encumbered as possible.

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<sup>5</sup> *Bulletin* of Jan. 28, 1945, p. 119.



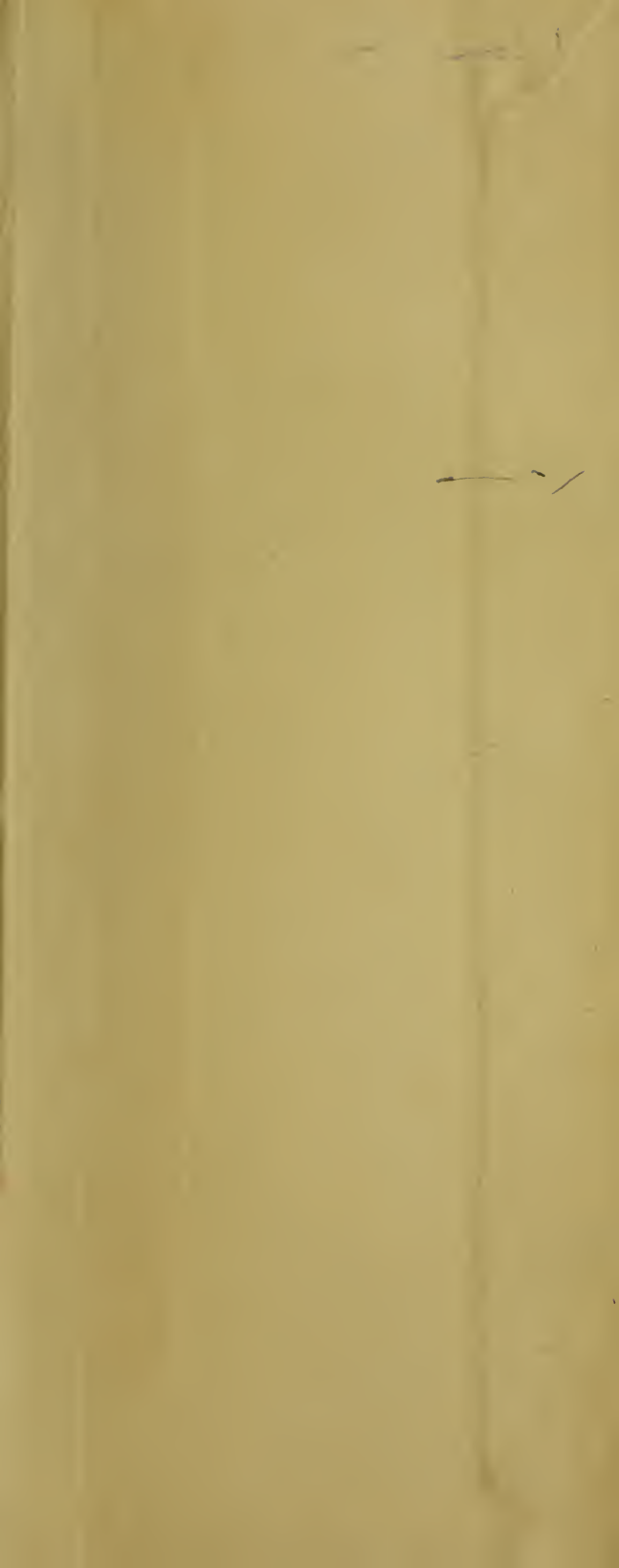












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